FINANCIAI TIMES

Start the week with...



Japan's Net crisis Not surfing but drowning



Business travel Concorde's 20th birthday



Turkey and the EU Facing east and west

Survey, Pages 23-26

World Business Newspaper

crisis deepens as Dini is blocked

Prospects of a quick solution to Italy's government crisis evaporated over the weekend as the right-wing National Alliance (AN) refused to endorse the continued premiership of Lamberto Dini. The tough line taken by AN, as Italy attempts to form its 55th postwar governmant, threatened a serious split in the parliament's rightwing grouping headed by Mr Silvio Berlusconi, the former premier. Page 2

Brussels set to approve \$3bn bank aid: The European Commission is this week expected to approve a FFr15bn (\$3bn) state aid package for Comptoir des Entrepreneurs, the specialist French property bank, which has submitted extensive restructuring plans in return for approval of a gov-ernment assisted rescue. The huge restructuring involves abandoning all the bank's activities out side France. Page 14

Mexico to bail out companies: The Mexican government is poised to rescue some of the country's largest and most heavily indebted companies in an effort to avert the threat of large-scale corporate defaults. Page 14

Doubt east on US federal debt deat: An unconditional extension of the federal debt ceiling could not pass the House of Representatives, Congressman Dick Armey, its majority leader, asserted. Contradicting other senior Republicans, Mr Armey said any deht ceiling bill, which would enable the US government to avoid default, should come attached with other aspects of the Republican agenda. Page 3

Chechens pledge to free captives: Chechen rebels promised that tomorrow they would free most of the hostages they seized in a raid into southern Russia. The rebels smuggled the hostages to Chechnya last week when they escaped the fourday attack on Pervomaiskoye by Russian forces.

iraq woos UN again over off exports: The international oil industry is contemplating whether Baghdad's latest overture to the United Nations will result in the first Iraqi oil to reach world markets in more than five years. A visiting French MP said lraq was determined that talks with the UN on limited oil sales would succeed, Page 4

Big increase in world drug sales: World drugs sales for the first 11 months of 1995 surpasse the total for the wbole of 1994, with sales in the world's 10 biggest markets up 8 per cent to \$125.7bn.

Kirch group, one of Germany's largest media organisations, is to join a consortium headed by rival Bertelsmann to develop a pay-per-view standard decoding box which will allow the launch of digital television this year. Page 15

Forte, the UK's largest hotels company, claimed the support of bolders of at least 35 per cent of its shares as its £3.5bn (\$5.4m) bid battle with Granada, the UK leisure. TV and catering group, moved to a

To wins ruling in US fraud test case: TI Group, the specialist UK en eering and seros components manufacturer, has won an important legal ruling in New York in its test-case fight against a \$60m fraud action brought by the US Justice Department. Page 15

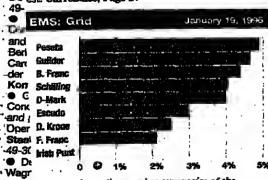
Bosnia war crimes evidence: US envoy John Shattuck toured suspected mass grave sites near the eastern town of Srebrenica in Serb-held Bosnia. He said there was "overwhelming evidence" of borrible crimes against humanity". In one village, Glogova, 2.000 bodies are believed to have been buried. Nato evasive. Page 3

Recovery for UK rail rolling stock: UK train operating companies are poised to resume ordering new rolling stock after a gap of more than two

Vibrations slow P&O flagship liner: The Oriana, the \$200m (\$304m) flagship of the P&O fleet of cruise liners is have a new set of propeller blades because of vibration at high speeds. Page 5

Cricket: England lost last of their one-day matches against South Africa, who took the series 6.1. The tourists were all out for 154 at Port Elizabeto in reply to South Africa's 218 for nine.

European Monetary System: The D-Mark ended last week on a weak note against other major European currencies as the dollar advanced against the German currency in the run-up to Saturday's meeting of finance ministers from the Group of to Seven leading industrial countries. There were no 24 changes of position on the ERM grid over the week with the Spanish peseta remaining the strongest OF currency in the system and the Irish punt the weak-De est. Currencies, Page 27



Staat-schange rate mechanism measured against the Jan 2-eakest currency in the system. Most of the currenes can fluctuate within 15 per cent of agreed central Tottes against the other members of the mechanism.

The exceptions are the D Mark and the guilder which

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Media Futures, Page 7



MONDAY JANUARY 22 1996

Italian government Spanish yard may build aircraft carrier for China

A Spanish state-owned shippard is to hold exploratory talks on construction of an aircraft carrier for China. The proposal is likely to stir international controversy since it would mean a significant addition to Chinese naval power. Mr Eduardo Abellán, chairman of Bazan, the warship builder, is due to present the project during a visit to China starting today. He indicated the Chinese might be interested in a vessel similar to an 11,500-tonne aircraft carrier for the Royal Thai Navy which was launched at the weekend in

Ferrol, north-west Spain. It is the

first time any country has built

an aircraft carrier for s foreign navy.
China has been rumoured for some time to be seeking to build or purchase an aircraft carrier capability, as part of a military modernisation drive. China lacks a "blue water" navy, and thus an ability to project power beyond its coastal areas. Chinese defence planners have long coveted such a capability, but have hesitated

> But China's growing economic power, its increasing importance in world trade, and its regional

leadership ambitions are factors certain to be weighing heavily in Beijing's calculations about next century.

Acquisition of a carrier could raise tension over the disputed Spratly islands in the South China Sea, where China, Taiwan, Vistnam, the Philippines, Malaysia and Brunei all have claims. No south-east Asian country currently operates an aircraft car-

Bazan managers said they were counting on the Thai deal to gen-

erate more contracts in the -- Managers say they could offer region since the new carrier, due for delivery next year, would create an imbalance in naval forces. ate an imbalance in naval forces. The Spanish company won the \$358m Thai contract in 1992 after reported reluctance by the German government to let the Bremer Vulkan shipyard carry out the job. British, French, Italian and US shipbuilders also bid for the contract. Bazan says it won partly on cost, but also on production techniques enabling it to finish the ship in less than five years.

Proposed boost to Beijing naval power set to trigger international controversy

China a similar price including combat systems and logistic support. A Chinese carrier could be in operation early next century.

The Thai vessel Chairi Naruebet, which is 70 per cent complete, is due to carry AV-8 Harrier jump-jets bought from the Spanish navy, as well as helicopter. Defend for a great of \$10 it. ters. Designed for a crew of 601, it is only the second carrier Bazan has built, and is modelled on the Spanish flagship Principe de Asturias. The vessel, adapted to perform a disaster relief role in

cal launch missile system.

Bazan needs to fill a trough in the workload for its 4,000 workers at Ferrol after 1997. It is waiting for a decision by South Africa on a RL Son (\$410m) project for four corvettes. But the contract, for which Yarrow Shipbuilders, part of the British GEC group, is also competing, has heen long delayed Mr Abellan said a Spanish navy order for four frigates would probably be placed before the country's general election in

Extra funds for Fokker likely to be ruled out

Daimler-Benz to decide fate of its Dutch subsidiary today

By Wolfgung Münchau In Frankfurt

Daimler-Benz, the German industrial group, is expected to rule out a capital increase for Fokker, its troubled Dutch regional aircraft subsidiary.

Barring a last minute reprieve, Pokker, a pioneer of the Euro-pean aerospace industry, would then be left at risk of financial

collapse.

A final decision about the future of Fokker, which is being kept affoat by short-term bridging finance from Daimler-Benz, is to be taken at an emergency Stuttgart today. The meeting fol-lows the breakdown on Friday of talks with the Dutch government, which refused to partici-pate in a capital increase, as had been requested by Daimler-Benz.

The tough stance taken by Daimler-Benz marks an increased readiness to get rid of loss-making subsidiaries, and may even signal the first stages of a long-term retreat from the aircraft and defence business. A pull-ont would cost the Ger-

man company several billion Increasingly radical restructuring efforts are likely to have a profound impact on Daimler's

1995 results. Internal company

projections put the full year loss at DM2.3bn (\$1.5bn), as well as about DM200m arising from the reorganisation of AEG, according to a report in today's issue of Der Spiegel, the news magazine. Daimler-Benz yesterday refused to confirm or deny the figures.

According to the report, the
total 1995 loss, including future
loss provisions for Fokker, could

run to DM5bn, making it the biggest non-fraudulent ordinary loss in German corporate history. Mr Jürgen Schrempp, chairman, acknowledged yesterday

the 1995 results would be affected "old problems", adding that restructuring decisions would "create the foundation for solid profits in 1996". He refused to indicate publicly what recommendation about Fokker he would put to the supervisory board today, but said that "get-ting rid of sources of losses has absolute priority currently at the Daimler-Benz board". Within Daimler-Benz it is

widely thought that a decision to pull out of Fokker would be the most likely outcome of today's

Today's decision will have

Continued on Page 14 Editorial Comment, Page 13; Lex, Page 14; Fokker looks for a



landslide victory in the race to be president in Palestine's first national elections. However a number of candidates, handpicked by the veteran leader, suf-fered defeats. Pollsters estimated 30 critics of Mr Arafat could be elected to the legislative council. Report, Page 14; Not all votes go way to keep in the air, Page 17 | Fatah's way, Page 4 Potent Factor

Goldman Sachs partners reject flotation scheme

By Maggie Urry in New York

Months of intense speculation on Wall Street were ended yesterday when Goldman Sachs, the invest-ment bank, decided to retain its 127-year-old partnership structure, rejecting a plan to sell shares to the public.

The decision was taken at a

weekend meeting of almost all the 174 partners.

Many had thought that the firm, the last large partnership on Wall Street, would seek a fio-lation to bolster its capital base, depleted by losses sustained in the disastrons financial markets - particularly US bonds - of 1994, and to allow partners to take

However, a marked recovery in profits in 1995 and a continuing good performance in the early eks of the current year gave the firm more flexibility to retain According to partners who attended the meeting, held at a conference centre outside New York city, there was a strong consensus to retain the existing capital structure. The meeting did not have a firm proposal for a public offer before it, but was a regular annual meeting at which a number of issues, including the firm's capital structure, were

Partners played down suggesrecently elected and longer serving partners, who stood to gain more by a flotation. One partner

said he had never seen the part-nership so united in favour of continuing in its present form. Goldman Sachs has gone

through the same discussion five

times in the past 25 years, each time deciding not to float. Over the same period, all the other leading securities houses have gone public or become part of larger, quoted companies. Goldman Sachs is now unlikely

to discuss the issue again for several years. It is not expected to seek further outside capital in the near term.

Mr Jon Corzine, Goldman Sachs' senior partner, said last month that the partnership structure had served the firm well over the years and that it had not found its capital structure a con-straint on its business. He said: "Every time the partnership has chosen to stay in its current structure and gone on and been very successful in the years fol-

lowing."
Since 1986, one occasion when Goldman Sachs considered and rejected a firm proposal to float, the firm has brought in outside

That year Sumitomo Bank of Japan invested \$500m in return a share of the profits. Later, private placements of the quasiequity were made with insurance companies. And in 1992 a Hawaiian educational trust, the Kamehameha Schools/Bishop Estate, invested \$250m in equity, donbling that amount in November

G7 ministers shrug off fears of long economic slowdown

By Robert Chote and Graham Bowley in Paris

Fears that the world economy might suffer a prolonged slow-down were shrugged off at the weekend by the finance ministers and central bank governors of the Group of Sevan leading

Meeting at the French finance ministry in Paris, the G7 ministers predicted stronger growth later this year, helped hy lower interest rates and a higher dollar. They played down the current ess of economic activity in Europe and, to a lesser extent, the US.

The G7 welcomed the rise in the dollar in recent months. Mr Jean Arthuis, French finance minister, said he hoped the dollar would now strengthen against European currencies by as much as it had against the Japanese

The desire for a rise in the dol-

lar relative to the D-mark was

meeting. Mr Hans Tietmeyer, Bundesbank president, said US interest in a stronger dollar was very important for the world economy and a very important development". However, market analysis doubt whether the G7 will take the concrete steps needed to further bolster the US

On economic growth, the G7 took a sanguine view of the current slowdown. "We agreed to maintain the direction of our policies geared towards sustaining growth and employment and, where necessary and appropriate, towards reinforcing recovery." the ministers said in a statement.

"The general view was that we would be seeing an uptick cer-tainly no later than the second half of the year, and perhaps earlier," said Mr Paul Martin, Cana-dian finance minister, after the

The ministers also emphasised the importance of continued

CONTENTS

efforts to rein in government bor-rowing and structural measures to bring unemployment down further. There was a lengthy discussion on the need for labour reforms, ahead of the planned meeting of finance and employ-ment ministers in Lille, France, on April 1. "The rigidity of European

which employers have to bear.

ing director of the international Monetary Fund, told the meeting that the current slowdown in European economies was only a "growth pause". He said the Ger-

labour markets has been long recognised as an important cause of weak growth in Europe," said Mr Theo Waigel, German finance minister. Germany and other European countries are concerned by the impact on employment of the high social costs

man economy would rebound in Continued on Page 14 More backing for IMF, Page 3 Managed Funds _____ 28.29

US \$500,000,000 Medium Term Revolving Credit Facility Chase Investment Bank Limited J.P. Morgan Securities Ltd. Union Bank of Switzerland ABN AMRO Bank N.V. Banque Nationale de Paris, Agence Nego Banque Paribas, Paris Credit Lyonnais ING Bank N.V. de Crédit Agricole-Crédit Agricole International (CNCA-CAI) ss Bank Corporation (SBC) Geneva Ranca Monte dei Paschi di Siena SpA, London Branch Bank of Tokyo (Schweiz) AG Bayerische Vereinsbank S.A. (BV France Trinkaus & Burkhardt KG&A, Düsseldorf Banque Cantonale de Zurich Luzemer Kantonalbank, Luceme

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Opposition's

bandwagon

German employers and trade unions expressed confidence at the weekend that talks tomorrow with the Bonn government on combating the country's stubhornly high unemployment would produce results acceptable to both sides.

In return for union agreement on pay restraint, the government is expected to give details of its proposed pro-gramme for cutting personal and company taxes and reducing the share of incomes and profits taken up by social secu-rity contributions. The changes, to be implemented up to the year 2000, would be financed by removing tax privi-

The basis for tomorrow's talks is the proposal by IG Metunion headed by Mr Klaus Zwickel, that industry create 330,000 jobs over three years in return for wage moderation. Despite employers' resistance, signs of a compromise emerged last Thursday in a second round of talks hetween the union and Gesamtmetall, the industry employers' federation.

Mr Zwickel's "alliance for jobs" proposal has been wel-comed by Chancellor Helmut Kohl as a basis for helping fight unemployment. Mr Bern-hard Jagoda, head of the Fed-eral Labour Office, said agree-ment on such an alliance could keep average unemployment "well below" the average of almost 4m people he had forecast previously. It was "not unrealistic" to expect the alliance to create jobs.

Mr Hubertus Schmoldt, head of IG Chemie, the chemical industry trade union, also expected the talks to be fruitful, "I think the Chancellor wants this alliance. We want it, too. So I expect we shall reach agreement even on Tues-day on key numbers."

While his union was willing to discuss a tightening up of sick pay and early retirement rules, Mr Schmoldt said companies had to be more energetic in developing new products and training people.

Also favouring a jobs alliance was Mr Dieter Hundt, chosen last week as the next head of the German employers' federation (BDA). He hoped this could take effect this year, although not just on the terms proposed by Mr Zwickel. The BDA wanted the maximum length of fixed-period employment contracts to be length-ened from 18 months to two

Mr Norbert Blum, labour minister, said pay restraint was vital to curb industry's costs and help create johs. Each I per cent rise in wages cost the economy DM18hn (£8bn), be said. This was far more than could be saved by cutting unemployment pay or New Greek PM gives top cabinet jobs to pro-European Union allies

Simitis strengthens EU hand

Mr Costas Simitis, Greece's prime minister-elect, yesterlay named a cabinet in which his two closest pro-European allies will have a prominent

The post of foreign minister went to Mr Theodoros Pangalos, a former European affairs minister, who gave vociferous support to Mr Simitis's campaign to reform the governing Socialist party.

Ms Vasso Papandreou, a former European Commissioner, takes charge of a new "super-ministry" for development,

The prospects of a quick solution to

Italy's government crisis evaporated over the weekend as the rightwing

National Alliance (AN) refused to

endorse the continued premiership of

The tough line taken by AN threat-ened a serious split in the parliament's

rightwing grouping headed by Mr Silvio

Berlusconi, the former premier, Presi-

dent Oscar Luigi Scalfaro, charged with

finding support for a new government in a parliament where the rightwing

grouping is almost evenly balanced

with the centre-left, is clearly irritated

and has given Mr Berlusconi until mid-

post-war government damped down the

week to resolve these differences. The problems of forming Italy's 55th

Mr Lamberto Dini.

grants to Greece, expand the privatisation programme and promote domestic and foreign

Ms Papandreon is Greece's most popular politician, according to opinion polis, but until now had refused to join the Socialist government. She backed Mr Stmitts in calling publicly for the retirement of Mr Andreas Papandreou, who resigned last week as prime minister because of ill-health. She is not related to the for-

The new cabinet, to be sworn in today, also reflects

renewed mandate for Mr Dini.

In a separate move but also likely to

have an impact on the financial mar-kets, Mr Antonio Fazio, the central

bank governor, ruled out any change in

interest rates until inflation appeared

under firm control. This killed specula-

tion that a strengthening lira and increased confidence in the economy

would lead to an early cut to bring Italy

Mr Fazio, speaking in Florence on

Saturday, also warned that the recently approved 1996 hndget would miss its

targets for reducing the deficit unless

His warning about the weakness of

the hudget, coupled with his firm ortho-

doxy on interest rates, is likely to com-

more into line with its EU partners.

the new prime minister's concern about keeping the political balance between reformers and laaders of the populist wing in the Panhellenic Social-

He allowed Mr Akis Tscohatzopoulos, public administration minister, and Mr Gerasimos Arsenis, defence minister, to keep their jobs. Both represent populist factions and were unsuccessful candidates

for the post of premier.

Mr Simitis has only a few
months in which to consolidate his position before Pasok holds a party congress to vote in a new party chairman, an election he must win in order

Italy's government crisis deepens

is likely to face party opposition over plans to reorganise the inefficient hureaucracy and overband state corpora-

The Socialists' economic team was left unchanged. As well as backing Mr Simitis in the race for premier, Mr Yannos Papantonion, the economy minister, has taken credit for reducing inflation last year to single digits after 20 years and for balancing the budget.

Close associates of Mr Papandreou, among them the health minister who was also his personal physician, and the sports minister who is

The divisions within the Berlusconi

camp emerged on Saturday when Presi-

dent Scalfaro beld his second - and

supposedly final - round of consulta-

tions following Mr Dini's resignation on

January 11. Mr Giantranco Fini, the AN

leader, refused to back Mr Dini and

called instead for the government to be

Mr Carlo Scognamiglio, the Speaker of

about Mr Berlusconi's ability to reach a

viable agreement with the centre-left

alliance on a government that would

institute a major reform of the Italian

state. These differences had been evi-

dent all last week, but until the week-

end Mr Berhisconi had appeared confi-

President Scalfaro will begin his third

round of consultations late Wednesday

or on Thursday. In a special address on

dent they could be overcome.

the Senate.

headed by an "institutional" figure like

were dismissed. However, Mr George Papandreon, the

past: Mr Sifis Valyrakis, the poblic order minister, who was accused of having links with terrorist groups in the 1980s, and Mr Alexanto a bank embezzlement scandal that brought down a previous Socialist govern-

television on Saturday night, he said

the next government must be one that was capable of carrying out a signifi-cant overhaul of the Italian state with a

broad base of support across the politi-

cal spectrum. If there was no agreement

on this, he would be obliged to dissolve

The common ground between Mr Ber-

luscom and his opponents in the centre-

left alliance, dominated by the Party of

the Democratic Left, is a desire to avoid an early election. But if Mr Fini refuses

to soften his stance, Mr Berlusconi will

have to accept a formal split in his alliance and lose his most important

ally. Alternatively, if he stays with Mr Fini, he risks losing the support of the small centre parties and even the mod-

erate wing ol his own Forza Italia

movement. In either case it would be

hard to postpone a poll after the end of

the Italian EU presidency in June.

parliament and call an election.

dros Akrivakis, the agriculture undersecretary, who had faced charges related

former prime minister's son, kept bis post as education Mr Simitis sacked two ministers with a controversial

rolls in Spain Mixing promises to modernise Spain and create jobs with

appeals for a return to basic leader Mr José María Aznar yesterday wound up the national congress of his Popu-lar party (PP) confident he would unseat Socialist premier Mr Felipe González in general elections on March 3. "A great responsibility awaits us. We are prepared for

it. We are going to win," Mr Aznar told 3,000 delegates at the end of a three-day congress rum on US-convention lines as a launching pad for his candi-

Pop songs, a scattering of show business celebrities and tab thumping speeches from PP leaders turned the congress into a festive endorsement of Mr Aznar's leadership. They served to paper over the absence of concrete PP policies and Mr Aznar's often bland

Opinion polls give the PP a lead of between five and nine points over the Socialist party. which has been in power since 1982. Mr Aznar, 42, projected himself as an overdue alternative to Mr González, saying he would provide "reasonable and necessary change",

We are going to govern without demagognery, without easy populism. I am determined not to gain a single vote hy trickery, hy covering up [issues] or with irresponsible promises," Mr Aznar said. He nevertheless pledged something for everybody, promising to back business and negotiate agreements with unions, to lower the national deficit and maintain the welfare state.

Party speakers had a field day by listing the scandals that

Aznar: confident of poll win

Hashii for tou

have rocked Mr González's administration since he won a fourth term as premier, although short of a majority, in 1993 and by attacking the government's economic record. Spain has double the European Union's unemployment rate and meets none of the EU's criteria for monetary union.

Mr Aznar presented a broad political platform that aims to bring decency back into public life, stimulating "the moral sense of individual responsibility", and encouraging "a patriotism born of the knowledge of Spain, of its history and of the love of its lands".

The package mixed Gaullism and "one nation" British Toryism with calls for ethical and generational renewal that echo those of UK Labour leader Tony Blair. Arguably the most potent electoral factor favouring Mr Aznar is that be offers a youthful and united party to voters who have grown weary of long-standing corruption allegations that bave enve-loped Mr Gonzalez's administration and with evidence of increasing divisions within his Socialist party.

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the main political parties seemed set on shrugs off presidency problems

By Lionel Barber in Brussels

Mr Lamberto Dini, Italy's caretaker prime minister in charge of a non-government, today chairs a meeting of Euro-pean Union finance ministers in Brussels, the first since Italy took over the rotating EU presidency on January L

The presence of Mr Dint, a former central banker appointed a year ago by a nonelected Italian president, may encourage critics who claim clans - are running the show in Europe.

"Dini is the embodiment of the democratic deficit," says one EU diplomat, while paying tribute to the Italian prime minister's political skills. Italy's New Year government

crisis has provoked bemusement and resignation in Brussels. The general verdict for the Italian presidency, which ends on June 30, is: embarrassing hut manageable. "We've been through 50 or

more Italian governments since World War II," said one Commission official, "so this is nothing new. We've learned to

cope."
So has the Italian bureau-

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cracy. Most of the Italian presidency's programme was planned well in advance. Much is unfinished husiness from the previous Spanish and French presidencies of 1995, such as reform of the wine market and the setting up of the Europol police intelligence agency. The high-point is the EU

summit in Turin on March 29-30 which will launch the inter-governmental conference to review the Maastricht

Italy, a founder member. would dearly like to make an imprint on the IGC. The message is Italy needs Europe in terms of open markets and political stability; but also that Europe would suffer if an unstable Italy slipped, metaphorically, into the Balkans or North Africa.

The Italian plea is directed chiefly at France and Gerschedule in 1999. many, the two countries most often associated with plans for a group of integrationist. minded countries to build a "hard-core" Europe around

with hoth countries are strained, particularly with with President Jacques Chirac ever since he took office, first hecause of the French leader's criticism of the weak lira and theo because of his fury at Italy's United Nations vote

monetary union. Yet relations

against French ouclear tests. Mr Dini also does not have much time for Mr Theo Waigel the German finance minister. who last year wrote off Italy's chances of being among the first wave of EU countries to join the single currency on

Whether Mr Dini today can resist alluding to Germany's failure to meet Maastricht's 3 per cent public deficit target for 1995 is a matter of diplomatic suspense. He will certainly touch on the need to do more to arrest the cancer of unemployment in Europe

Italy's wider problem is that its political crises have weakened its hand in the EU, feed-ing an inferiority complex which was laid bare during the Bosnian conflict last year. Italy, a Nato member, com-

plained at being excloded from the "contact group" (US, Russia, France and Britain) which was leading diplomatic efforts to reach a settlement. When the US-led strategy switched to hlasting the Bosnian Serbs to

government pointedly harred US Stealth bombers from its

the negotiating table, the Rome

The episode has prompted fears that the Italian presidency may have problems organising the international donors' conference in March to finance reconstruction in Bosnia. This conference must also dovetail with the work of Mr Carl Bildt, the internationally agreed representative charged with overseeing the Bosnian

Also in the area of foreign relations, aside from the EU-Asia summit on March 2-3, much of the presidency's work is follow-up to earlier initiatives. These include EU-US co-operation, last November's Barcelona conference on the Mediterranean, and talks on new co-operation agreements with Egypt, Lebanon and Jordan. Throughout, the Italians will be able to call not only on the Commission, but also the secretariat of the Council of Ministers, whose legal and political expertise will be needed for the IGC.

Nor should one overlook Mr Luigi Calvachini, Italy's EU ambassador. He only arrived in Brussels last October but has spent most of his 35-year diplomatic career on EU affairs. Born in Turin, he comes from an old Piedmontese family which has provided military men, clerics, and diplomats for the service of the state - one more sign that the technocratic tradition is alive in

Union loosens communist tie

By David White In Madrid

entered a new era at the weekend when the Workers' Com- key posts. missions labour confederation distanced itself from the Communist party. The confederation voted out its charismatic president and former secretary general, Mr Marcelino

In a hitter and sometimes angry meeting, Mr Antonio Gutierrez, who took over from the veteran Mr Camacho as secretary general of the confederation in 1987, won the backing of 66 per cent of delegates, with 32 per cent against, for his independent

78-year-old Camacho, a symbol of the struggle for union rights during the Franco regime, when he suffered both exile and ment, was instrumental in building up the union from the early 1960s. He had recently backed a "critical" faction of Communists pressing for a more combative stance and moves towards a 32-bour working week. This

faction, led by Mr Agustín Moreno, won seven seats on .. tive but was excluded from

Mr Gntiérrez, 44, who stopped taking an active party role after becoming union leader, and who last month attacked the Communist leadership for interfering in union affairs, said he would strive for unity with the other main labour body, the Socialist-oriented General Workers' Union (UGT). The UGT severed formal links with the governing Socialist party in the late

Mr Gutiérrez yesterday broke new ground hy attending a congress of the centreright Popular party, which has promised to seek a pact with employers and unions if, as election in March.

The landmark union meeting came shortly after an agreement between the two main union federations and employers on a compulsory arbitration system aimed at reductng the number of

Soviet shadow is cast over Poland

siastically promoting his stra-tegic visioo of a future Poland pean Union, secure within Nato and ready to act as Europe's bonest broker in dealing with a suspicious Russia.

This week he is back in freezing Warsaw for the start of a politically fraught week which could culminate in the resignation of Mr Jozef Oleksy. his prime minister, and upset the new president's desire to play a constructive role in Much hinges on the Warsaw

military prosecutor. He has to decide by Wednesday whether there is sufficient evidence to open formal treason proceedings against Mr Oleksy as an alleged informer of the former Soviet secret service, the KGB, and its post-Soviet successor. If the prosecutor decides that the accusations made by Mr Lech Walesa, the outgoing president, a few days before leaving office in December are strong enough to stand up in

carry on, although his reputa-tion, and that of Poland's political class as a whole, will have been damaged by the affair. The latest opinion polls show that, up to now, ordinary Poles have tended to dismiss the charges against Mr Oleksy as

court, Mr Oleksy will he

obliged to resign. If not, he will

Accusations that prime minister Jozek Oleksy was a KGB spy threaten to cloud the new president's strategic vision for his country's role in Europe Sufficient former Solidarity Oleksy complains that he is supporters shifted allegiance to the victim of a provocation by

simply more of the mud-sling-ing and intrigue which characterised the presidential court during Mr Walesa's tenure. Support for the governing Democratic Left Alliance (SLD) has even increased marginally. The polls indicate that neither the Peasants party(PSL), the junior partner in the current Union (ex-Solidarity) have the support to build the alternative government coalition they are trying to put together to replace Mr Oleksy's.

Thus far, Poland bas retained its democratic credi-bility and stability in spite of the return to power of former communists, reborn as social democrats. Tha 65 per cent privatised economy is booming. It grew hy 6.5 per cent last year and further export and investment-led growth is expected in 1996 against a background of declining inflation. Voters virtually ignored the anti-Semites, rahid nationalists and miracleseekers among the 44 candidates in the first round of the presidential elections, narrowing the field to a straight fight between Mr Kwasniewski and the one-time Solidarity hero. Mr Walesa, the incumbent.

bring victory to Mr Kwasniewski, who back in 1993 publicly apologised for the pain inflicted on Poles by the postwar Communist regime. His attempt to clear the air followed the SLD's victory in the September 1993 genaral alections which ended nearly four years of anti-communist Solidarity government and swept former communists back into

ut the resurgence of the Russian Communist party in the recent parliamentary elections, and ahove all the return to key positions in Moscow of hardliners from the old regime such as Mr Yevgeny Primakov, the newly appointed foreign minister, have raised the stakes in the case against Mr Oleksy. The weekly Polish husiness magazine Wprost has promised to keep up the attack by publishing names of more alleged KGB informers in this week's

The "evidence" against Mr Oleksy was supplied to the Pol-ish counter-intelligence agency by the Russians, and Mr

the victim of a provocation by the security police. Mr Kwas-niewski, interviewed in Brussels last week, expressed his personal confidence in the prime minister. He also promised that the Oleksy affair would be dealt with in an open. legal and democratic way and warned against falling prey to "spy mania". Recalling that Poland had

been under close scrutiny from all sides after the rise of Solidarity, he said that former ministers must have met spies among their diplomatic and other contacts. "But if it were true that the KGB, for example, was so clever and so powerful, the Soviet Union should have kept going for another

His message in Brussels was that Europe has not fully appreciated the opportunities for reuniting Europe opened up by the collapse of the Soviet empire, the reunification of Germany and the end of the Cold War. He said Poland wanted to take part in constructing "the architecture of a

united Europe".
"The real change in Nato will take place when the first

ex-Warsaw Pact member joins, bringing with it both intimate knowledge of the old system and of market-based, demo-cratic reform." Above all, he promised, Poland would "bring enthusiasm and energy" to the task of building the new Europe, as well as insight and experience in dealing with Rus-

"We have to persuade the Russians that Nato enlargement is not aimed against them. We have to be very consistent and patient. Poland has no problem with a US-led alliance. We are not naive. Yugoslavia has confirmed Nato as the core of European security. But for many Russians, Nato is still seen as part of the old system directed against the Soviet Union."

One of the questions to be answered this week is whether further investigation of the evidence against Mr Oleksy reveals that Moscow is so opposed to Nato enlargement that it is willing to sabotage politicians whose communist past gives them a unique insight into the fears of ex-Soviet Russia, but at the price of leaving them still vulnerable to

accusations of divided loyalty. Anthony Robinson. Lionel Barber and Christopher Bobinski

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INTERNATIONAL NEWS DIGEST

Hashimoto set for tough test

Mr Ryutaro Hashimoto, Japan's new prime minister, today faces parliament to justify an unpopular government plan to use public money to liquidate bankrupt housing loan companies. Foreign assessments of the stability of Japan's

financial system hinge on the success or failure of the plan. The housing loan company, or jusen, ballout will be the keynote of Mr Hashimoto's first policy speech to parliament, to open what will be an unusually combative lower house session stretching to June 19. Mr Ichiro Ozawa, last month elected president of the opposition New Frontier party, plans to embarrass Mr Hashimoto by publicising his part in the companies' injudicious lending while finance minister from

Mr Hashimoto's address, the outline of which was revealed to the Japanese media over the weekend, is otherwise due to emphasise a conservative approach to economic and foreign policies. He is expected to stress continued efforts to stimulate the economy through a sharp rise in public spending. This is included – with the housing loan plan – in the current year's budget, due for agreement early in the new session.

William Dawkins, Tokyo

Nato evasive on grave sites

Nato yesterday dismissed reports that it would guard mass grave sites in Bosnian Serb-held territory where thousands of Moslems are feared buried.

Admiral Leighton Smith, commander of the Nato-le Implementation Force (ifor) said: "Nato is not - I repeat, Nato is not - going to provide specific security, or in other words guarantee security, for teams investigating these grave sites." He said Ifor would give help consistent with available forces as long as it did not interfere with their mandate. But other reports indicated Nato would move to secure the sites. Mr Joho Shattuck, US assistant secretary of state for human rights, vesterday was due to tour suspected sites near Srebrenica, in eastern Bosnia.

Adm Smith warned that Bosnia's three hostile factions would come under "enormous pressure", including the loss of financial aid, if they did not release all prisoners of war soon. In Sarajevo, a political row continued to simmer as Bosnian premier Haris Silajdzic announced he would step down.

Mandated to form a new Bosnian government, Mr Silajdzic said he was quitting because he was given only five ministers plus one without portfolio instead of six full ministers. The Dayton agreement envisages a Bosnian government with two subsidiary entities: the Moslem-Croat federation, and the Serb republic.

. Representatives from Croatia and the Bosnian Serb republic yesterday signed a groundbreaking economic and human-itarian agreement, according to Serbian radio. It called for restoration of trade, road and rail links. Laura Silber, Belgrade

Hijack ferry leaves Turkey

A Black Sea ferry carrying freed Russian hostages and crew members yesterday left Turkey for the Russian port of Sochi, after the hostage crisis that strained relations between Moscow and Ankara

The hostages were liberated on Friday after Turkish authorities reached a settlement with the nine pro-Chechen gunmen who seized the Avrasya ferry three days earlier. Under Turkey's anti-terrorism laws the hijackers could be imprisoned for up to 15 years, but some observers believed the authorities might take a more lenient line, in view of tha strong support the Chechen cause enjoys from Turkish

Within Russia's borders Chechen separatists cootinued to pose a political and military threat to the Russian authorities. The Kremlin, which used military force to end a hostage crisis in southern Russia last week, was embarrassed by cootinued assertions from Chechen separatists that some of the hostage takers had escaped, taking some of their captives with Chrystia Freeland, Moscow them to rebel-held territory.

Visa move may anger China

Taiwan is expected to seek a transit visa for vice-president Li Yuan tzu to land in the US, a move likely to re-ignite Chinese anger over what it terms Talpei's "transit diplomacy." The Taiwanese vice-president will travel to Haiti in early

February for the inauguration of the Caribbean country's new president and has requested a transit visa for refuelling in the

China protested sharply to Washington when the US, after some deliberation, decided to grant Mr Li a transit visa to refuel in Los Angeles on the way to the inauguration of Guatemala's new president earlier this month.

. The latest request will test Washington's ability to balance its fraught ties with Beijing with its policies towards Taiwan, in a review of its Taiwan policy in 1994, the US administration decided that it would issue transit visas to Taiwanese officials. Laura Tyson, Taipei

Minister quits over bank crisis

Lithuanian interior minister Romasis Valtekunas has resigned after intense public criticism of his handling of a financial crisis that shook the Baltic state's banking sector last month. Mr Algirdas Brazauskas, the Lithuanian president, accused

his interior minister of employing strong-arm tactics against the management of innovation Bank and Litimpeks Bank, the two institutions closed down last month on suspicion of fraud. On Mr Vaitekunas' orders, the senior executives of the two banks were arrested in high profile stake-outs after the central

bank had halted operations at the banks. Mr Vaitekunas has also been criticised for allegedly withdrawing funds from Innovation Bank, just two days before it was closed. Chrystia Freeland, Moscou

Taiwan reaps export orders

Taiwan's export orders rose to \$113.55bn in 1995, up 20 per cent from 1994, due to strength in electronics and information

The economics ministry said orders for computers and telecommunications products climbed 41.15 per cent from a year earlier to \$15.25bn. Electronics orders were up by 33.9 per cent to \$16.31bn. Orders for textiles, another strong performer, rose 21.8 per cent to \$15.72bn.

A quarter of 1995 export orders came from the US, Taiwan's single biggest source of orders, rising 11.75 per cent from 1994 to \$29.69bn. Export orders are considered an indicator of

future economic performance.

Last year's export performance was not matched by industrial production, which rose a modest 4.2 per cent, down from 6.7 per cent in 1994, the economics ministry said. Taiwan's economy is experiencing a slowdown due to troubles in the property and financial sectors. Laura Tyson, Taipei

Romanian party gears for polls Romania's ruling Party of Social Democracy (PDSR) has

reshuffled its cabinet in a bid to improve its image in the rum-up to local and general elections.

Mr Dan Ioan Popescu, 47, and Mr Alexandru Stanescu, 49.

both senior party members, were sworn in as ministers of trade and industry respectively at the weekend. Mr Popescu, formerly deputy industry minister, takes over from Mr Petru Crisan, the former trade minister, who was forced to step down after allegations of corruption.

The reshuffle is the fifth since the minority PDSR government took office in late 1992. Recent opinion polls show the PDSR, a left-wing party dominated by former communists, sharing the lead with the Democratic Convention, a coalition of opposition parties.

The National Peasants Party, the mainstay of the DC. announced at the weekend it had appointed Mr Ion Diaconescu, a 79-year-old former political prisoner, as its new president following the death of its former leader last Virginia Marsh, Budapest

Doubt cast on US federal debt deal

By Jurek Martin in Washington

An unconditional extension of the federal debt ceiling could not pass the House of Representatives, Congressman Dick Armey, its majority leader. asserted yesterday.

Contradicting other senior Republi-

cans, Mr Armey said that any debt ceiling bill, which would enable the US government to avoid default. should come attached with other aspects of the Republican agenda in order to pressure President Bill Clinton to reach a balanced budget

Mr Leon Panetta, the White House

other than a "clean" debt ceiling bill. He said Congress should "not play games" with a subject as important as "the full faith and credit" of the US

Mr Robert Rubin, the Treasury secretary, has warned that if the \$4,900hn (£3,200hn) borrowing is not raised he may run out of extra measures to avoid default by the middle of next

Last week, Congressman John Kasich, chairman of the House budget committee, said Congress should pass a straightforward bill and not "mess

vote how he wants to, but I don't think it would pass".

Congressman Newt Gingrich, the Speaker, had also a week ago favoured a simple management of the debt problem, though his attitude against the unconditional approach appeared to harden later as he toured Republican fundraisers in the west and south.

The Speaker's ability to control the more radical House Republicans now is in some doubt. A long Washington Post series of articles, ending yesterday, on the budget negotiations

had been consistently out-manoeuyred by Mr Clinton.

The series, detailing one occasion on which he had broken down and others on which his tactical sense was found wanting, concluded that he had found talks in the Oval Office an aweinspiring experience, not exactly the impression he would have preferred to have left with his more uncompromising colleagues.

The hardine Mr Armey, on whom Mr Clinton also practised his charm with less success, obliquely conceded that these had been difficult times for

chief of staff, said later that Mr Clinaround" with default. But Mr Armey revealed the extent to which they felt Mr Gingrich. He carefully refused to would definitely veto anything retorted yesterday that "John can as he did at times himself - that he go along with the Speaker's assertion of the carefully refused in the speaker's assertion of the carefully refused in t - as he did at times himself - that he go along with the Speaker's assertion over the weekend that the economy appeared headed for a recession this

Mr Armey also said that a third government shuidown, threatened for this Friday, could be avoided by Congress passing another 30-day temporary funding measure which would severely limit the spending of some departments. Mr Panetta said Mr Clinton could sign such a "continuing resolution" but he criticised the Republicans for wanting to attach excessive spending cuts to the resolu-

INTERNATIONAL PRESS REVIEW

Bribe charges rattle a shaky political edifice

INDIA By Mark Nicholson

Three Congress party ministers and the opposition leader resign after being charged with accepting bribes from a Delhi businessman. Six other politicians are also charged. Dozens more top politicians are being probed by the Central Bureau of Investigation. More charges are promised. A general elec-tion is just three months off... Small wonder India's political scribes have plundered the

thesaurus for synonyms of

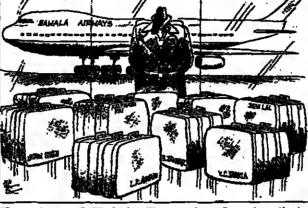
apocalypse. "It may not be unduly melodramatic to describe the CBI's onslaught this week. . . as a devastating denouement of the political class as a whole," wrote Mr Ajoy Bose, the Pioneer's political editor. 'The emerging whirlwind may well sink the democratic political edifice as we have known it." "Cataclysmic," agreed Mr Snbir Roy, columnist in tha Business Standard, Organised politics "may be quite unrecognisable before we know it."

The Indian press has, with increasingly leathery cynicism, covered more than its share of scandals - the alleged Bofors arms kickbacks and the 1992 stock market scam, to recall ust two But in assessing political chaos thrown up by the present case, commentators have ventured tentative optimism that it may for the first time bring prosecution and ...Indian politics, wrote Mr-conviction for political corrup. Bose, there has perhaps never from and foll some venality out ... been such an unscrupulous or of Indian politics.

market money deals - where illicit cash "suitcase" deals circurrency regulations) allegedly conducted by Mr SK Jain, a steel and power indus-

"What Mr Narasimha Rao, the prime minister, has done is to destroy at one stroke, the cloak of immunity that had gathered, layer by layer, around the political ruling class and its associates over 40 years," said leading commentator Mr Prem Shankar Jha in the Business Standard.

Not that Mr Rao is credited with political altruism. Though the CBI claims to have brought the charges on its own initiative, Mr Rao hand is universally seen behind the timing and selection of charges.



"Excess baggage": Hindustan Times cartoon shows investigator pondering luggage bearing the names of some top politicians

prime minister with a 'new' Congress and a 'new' agenda that is going into battle," the Pioneer declared.

Mr Narayanan, and others,

are less convinced. With mud

likely to fly and stick to vir-

tually all parties, he said: "Just when the nation is wondering

about its choicelessness on the

eve of a general election, it has

been rudely shocked into a

realisation of the enormity of

indeed, many argue it will be

necessary to look deeper and further than the next elections

to find any real net benefits from the scandal. The charges

are, said Diwakar column in

its choicelessness.

Since the CBI is, for all practical purposes, the handmaid of the government in general and the prime minister in particular, political motive is writ large in the exercise," wrote Mr V N Narayanan in a Hindustan Times editorial.

Thus, most writers conclude. did a four-year-old inquiry fructify into charges only three months before India's elections. Hence the charged include Mr L.K. Advani, leader of the opposition Bharatiya Janata party, which had been forging a strong anti-Congress anti-corruption drive. So, too, inclusion of Mr Arjun Singh, who last year led a Congress breakaway faction.

"In the entire history of audacious election gimmick." The charges deriva from notebooks seized by tha CBI in connection with havala (black attack" from the opposition, "it is possible that with every leader accusing the other of corruption, the entire issue

would become farcical".

Pundits see other dangers for Mr Rao, not least the prospect of angry division in his own party. Mr Roy pointed out to Business Standard readers that Mr Rao might find himself "carried away by the force of events": "It will be a brave crystal gazer who will confidently declare that Narasimha Rao will be able to control

what he has unleashed." But some see the possibility that Mr Rao's "daring gamble", as the Ploneer pnt it yesterday, may refurbish the image of the Congress Party, particularly by projecting Mr Rao as a decisive leader. "It is a transformed

the Economic Times, unlikely to shock the Indian public: "It is quite some time since people ceased considering politicians as selfless souls it wrote. They may, however, shock politicians. "The overwhelming majority of our political leaders must have accepted donations/kickbacks at one point of time or the other," it said. But the newfound zeal of the CBI, urged on by India's supreme court, should alert them that "the times are changing and that they cannot afford to be complacent any more".

And as times change, so must India's political system, wrote Mr Shankar Jha in the Business Standard. The prevalence of "black money" in Indian politics, he said, arose because there was no proper system for corporate or other donations to be given to par-ties since the ban on corporate donations in 1970. . .

This, he wrote, must be addressed as a priority. "The black money politics nexus that developed in the '70s and '80s has become the most important single hurdle to the completion of economic reforms in the '90s".

Mr Rao's first step, in allowing corruption charges to pro-ceed "must". he said, be followed by a second: "establishment of a state fund for financing expenses of recognised political parties".

More lenders ready to back **IMF** in crisis

Up to around 10 new countries are likely to agree to lend money to the International Monetary Fund in the event of future Mexican-style economic crises, according to senior finance ministry officials from the Group of Seven leading

industrial countries, Mr Kenneth Clarke, the UK chancellor, said at Saturday's G7 meeting in Paris that six or seven potential lenders had already been approached and that he expected them to sign up. They are likely to include Austria, Australia, Singapore, Malaysia, Spain and Korea.

Giving the IMF access to

more money in times of crisis involves setting up a parallel mechanism to the existing "general arrangements to borrow. (GAB). These already allow the IMF to borrow more than \$25bn from the members of the Group of Ten industrial countries.

In the wake of the Mexican crisis the G7 agreed that the amount of money available to the IMF under the GAB should be doubled by recruiting new potential lenders and by increasing the commitments of the existing G10 countries. The G7 also hopes that expanding the GAB will create

for the stability of the world financial system among a number of the emerging markets which now are playing an important rola in the world

economy. G7 officials hope that sub-stantial progress on the GAB expansion will have been made by the time the IMF's policymaking interim committee next meets in Washington in April Mr Larry Summers, the US deputy Treasury secretary, said a lot of technical work was already under way.

A year after the Mexican crisis, the G7 finance ministers used part of their meeting to assess progress on several other initiatives designed to prevent a repetition of that debacle. This includes establishing international standards for publishing economic data. Mr Summers welcomed tha fact that the G7 now spent

more time discussing risks to the world financial system from outside its own ranks. He also noted that the IMF had made a number of desirabla changes in the ways it exercised surveillance over the world economy. Mr Clarke said the ministers

also discussed the potential reform of international institutions to tackle excessive costs and bureancracy, as well as unnecessary overlaps between organisations.

Alsthom denial of bribes claim

By Mark Nicholson in New Delhi

Alsthom Export, a French subsidiary of the GEC-Alsthom power company, has rejected allegations that it paid bribes to influence Indian politicians. Its denial came after the company was named in charge documents against Mr Arif Mohammed Khan, a former minister indicted along with nine other Indian politicians for alleged corruption last

A statement from the com-pany's Boulogue headquarters, sent to Agence France-Presse newsagency, responded to reports implying that Als-thom Export would have been involved in the payment of bribes to Indian politicians", saying it "strongly denied any such allegations".

The claims emerged in the charge document filed last week by the Central Burean of Investigation against Mr Khan, who served briefly as India's minister of energy and civil aviation in 1990 and who, it alleged, received money as "motive or reward" for clearing a 1990 power project at Kawas, in the state of Gujarat,

won by Alsthom Export. The document asserts that Mr S K Jain, a steel and power industrialist at the centre of the corruption inquiry, eign sources of funds appar-between 1988 and 1990 "acted ently received by Mr Jain.

as a middleman" in the award of "certain big projects in the power sector". It alleges "illegal gratuities" paid to politicians and bureancrats and that "a major portion" of pay-ments detailed in notebooks seized at Mr Jain's residence in 1991 "came from foreign countries through hawala [illegai currency exchange] chan-

In particular, the document says Mr Jain was "lobbying with various public bodies" in connection with Alsthom Export's bid for the Kawas project "with the motive of getting illegal kickbacks". Citing "investigations" and

seized notebooks, the charge sheet, dated March 4, 1995, states that Mr Khan received a total of Rs74.9m (£1.35m), allegedly from or through Mr Jain. It goes on: "The payment of a large sum of Rs65.4m to Shri Arif Mohammed Khan is thus prima facie a payment of reward to him by m/s Alsthom Export of France through Jains mentioned above for clearing the award of longstanding Kawas project in their favour in just one meeting held on 23.1.90."

The charge sheet states that "Interpol references" had been sent to unspecified countries to investigate the alleged forThe Landmark London S INDIVIDUAL You Are

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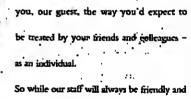
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Orange County **switches** to the offensive

in Los Angeles

Orange Connty government has switched to the offensive, threatening more than 20 top-rank Wall Street brokers and financial advisers with possible legal action in connection with the debacle which plunged it into bankruptcy in December 1994.

The southern Californian administration, already suing investment house Merrill Lynch and anditors KPMG Peat Marwick for a total of \$5bn (£3.3bn), posted court papers late on Friday, reserv-ing the right to sue all professionals who had done business with the county.

The pre-emptive strike came at a delicate time, with the county attempting to persuade Wall Street to npgrade its lowly credit rating in preparation for the planned issue of some \$800m in new bonds.

It also followed an upturn in the bureancracy's fortunes when the Securities and deals which effectively freed county officials, politicians and former finance department employees from threat of federal prosecution.

This move is likely to leave Mr Robert Cltron, former county treasurer still awaiting sentencing for frand, and appealing for mercy on the grounds of "dementia", as the only individual to suffer the legal consequences of investment losses totalling almost

The SEC deals, which have yet to be formalised, also watchdog's attention to the professionals and roused speculation that exemplary action could be expected. According to leaked evidence from grand jury bearings, some advisers allegedly knew, for example, that Mr Citron had relied on investment advice from astrologers and a psychic.

Orange County lawyers admitted at the weekend to "omissions" of details on risk and portfolio losses from documents accompanying 1994 bond issues, threatened action against the local bond counsel involved, and turned up the pre-hearing heat on Merrill

They filed an emergency evidence presented to the SEC the investment house's employees. Merrill has count ered with a demand for information from the Orange County side. "The issue is not the SEC transcripts. We are prepared to band those over," a spokesman said. "But there is absolutely critical information which will support our case that Orange County is trying to withhold from us." Merrill, which has denied any failings, blames losses on the county's "ill-advised" deci-

bankrunter meritable CS First Boston is among the firms named in the county's weekend court filing of possible targets for legal

ment pool and thus make

Others on the weekend list included Nomura Securities, Morgan Stanley, Bear Stearns Dean Witter Reynolds, Pal-neWebber, Jackson and Curtis, Prudential Bache, Paribas Capital Markets. Sanwa-BGK Securities, Fuji Securities, Cantor Fitzgerald. Bank of America, Kidder Peabody, Donaldson Lufkin and Jenrette, Bankers Trust, Citicorp Securities Market Daiwa Securities America, Drexel Burnham lambert, Goldman Sachs J.P. Morgan Securities, Lebman Bros. Securities Pacific National Bank, Nikko Securities International, and Yam-

Not all the votes go Fatah's way

r Yassir Arafat may have won a huge parsonal endorsement from Palestinians in the weekend elections, but the results indicate that his days of one-man rule could be drawing to a close.

The elections bestowed on Mr Arafat the democratic legitimacy he has so long craved for the Palestinian-Israell peace process. His personal victory of about 85 per cent in the two person race for the presidency of a Palestinian executive authority also proved the personal popularity of the vet-But the larger than expected

victory of independents, opponents and critics over candidates on Mr Arafat's official Fatah list is an upset for the Palestinian leader. It will usher in a council prepared to check his often arbitrary decision making and test his traditional intolerance of opposition.

Early results suggest that, although Mr Arafat's appointed Fatah list will form the majority in the 88-member legislative council, there could be up to 35 strong independent men and women with a past record of criticising his authoritarian rule. Many independents are bent on compelling Mr Arafat to become more democratic and accountable and to end his leadership style

This has been a vote for grass roots democracy both by the general population and by Fatah party members themselves," said Mr Jonathan Kuttab, an independent candidate, elected to a reserved Christian



Palestinian women bolding registration forms and passports queue at a voting station in Gaza necessary

for change, for participation and a vote against being dictated to from above. People love Arafat but they do not want a one man regime any

With turnout estimated at between 75 and 80 per cent, the that the boycott called by the Hamas Islamic opposition and other secular political factions had largely failed. However, in some Hamas strongholds, such as Hebron, turnout was estimated at below 40 per cent although international observers in part blamed heavy Israeli military presence for the low level of participation. In the West Bank and Gaza Strip tens of thousands of Palestinians shunned Mr Arafat's dominant Fatah faction and

opted for independents, critics and dissidents. Many voters also vented their anger at the way Mr Arafat bad overturned internal elections in Fatah and voted in popular Fatah activ-ists blacklisted by him. In several multi-member electoral districts such as Jeru-

salem, Ramallah and Gaza City, independents received more votes than official Fatah candidates. In the Bethlehem district, which has four seats, the entire Fatah list was defeated by independents. The results from Jerusalem will be a big disappointment for Mr Arafat, Mrs Hanan Ashrawi, an independent and critic

of Mr Arafat's poor buman in Gaza City, Mr Haidar Abdel Shafi, a popular and rights record, appeared to head the poll for the district's seven respected opponent of the

Abu Ala'a, appeared set to be elected. Voters also elected Mr

Hatem Eid, an independent

chosen by Fatah in internal

primaries but later blacklisted

also has seven seats, an inde-

pendent Mr Jawad Abdel Saleh

garnered the most votes and only three of Mr Arafat's Fatah

list were elected. Ramallah vot-

ers choose Mr Faris Hamid

Kadoura, an independent who,

like Mr Eid, had been elected

to the list in Fatah primaries

but later vetoed by Mr Arafat. Other Fatah "dissidents" were

also elected in Gaza and

Similarly in Ramallah, which

by Mr Arafat.

Gaza City's 10 seats, four official Fatah candidates were elected. The remainder went to independents and candidates loosely linked to the Hamas group. In another surprise Mr Marwan Kanafani, Mr Arafat's spokesman, was defeated despite his clear close ness links to the Palestinian leader. arly analysis of voting

votes. In results for nine of

ariy analysis of behaviour suggested that Palestinians had that Palestinians had split their votes. Mr Nader Said, a sociologist at the Cen-tre for Palestine Research and Studies who conducted an exit poll, said the vote reflected a high degree of political awareness and pluralism ... "This is a real victory for

democracy," he said. "There has been a high degree of political maturity, independence and protest voting and it has shown that Arafat cannot use his old ways of imposing on people."
Mr Said said an exciting

development was the high turnout of women in what has been seen as a traditional Arab society. "We have moved away from the old traditional ways and we ready to take new ways and attitudes," he said. He said the greatest mistake in the elections was made by

Hamas and the secular opposi tion which boycotted the polls. "If the opposition groups had participated it would have been an even greater blow for Arafat and a greater achieve ment for democracy," he said.

Julian Ozanne

passionate objection to any

Palestinian voting in Jerusa

lem. A handful of Palestinian

Hamas supporters, from the

militant Islamic opposition

calling for a boycott of the

polls, managed a brief protest

The same story was true in

Hebron, where Israeli settlers

have plastered Arab shops

with star of David slogans,

machine-gun toting soldiers

patrol the streets, and Hamas has its strongest support. At polling station 19, in a girls'

school just outside the town

centre, only 8 per cent had

in front of the post office.

Saddam woos UN again over oil exports

The International oil industry spent the weekend contemplating whether Baghdad's latest overture to the United Nations will result in the first Iraqi oil to reach world markets in over

This possibility was stoked by statements yesterday by vis-iting French member of partiament Jean-Bernard Raimond that Iraq is determined that talks with the UN on limited oil sales will succeed. Mr Rai-mond said he sensed a willingness on the part of Iraqi officlais be met, including President Saddam Hussein, not to let the talks fail.

"I think the Iraqi authorities are, without ambiguity, all for these conversations (talks)," he said at the end of a six-day visit to Baghdad.

Oil prices have previously



gyrated wildly on rumours of a diplomatic breakthrough that would allow limited tranj oil exports for purchases of food kets were unsettled by news of a letter from Iraq to Mr Bout-ros Boutros Ghalt, UN secretary general, accepting an invitation to talk about such oil

But there was uncertainty as to whether fraq was referring to Resolution 986, which allows for limited oil sales, or whether it wants to discuss a new diplo-

matic framework for possible

exports... But why would President Saddam Hussein suddenly drop his long-held opposition to the resolution, which he contends would lead to unwarranted foreign interference in Iraq and strip the country of much of its

sovereignty? Even western diplomats admit the resolution is not particularly generous.

Although it enables Baghdad

to sell up to \$2bn worth of oil over six months, not all the funds would be earmarked for relief supplies.

Ms Christine Helms at Washington's Petroleum Finance Company speculates that Saddam may now accept the the-ory that even limited exports of Iraqi oil will "break a psy-chological barrier," that, once removed, may make it hard to stop the momentum for even bigger oil sales in the future.

But both diplomats and analysts say it is impossible to know at this stage whether Mr Saddam has decided to reverse his position on 986. They warned that the current initiative may be just a subterfuge to find out if there are any new cracks in the international community's will to maintain the total sanctions regime.

Other analysts have ascribed more sinister motives to Iraq's occasional diplomatic initiatives. Some say they are done deliberately in order to move oil prices, thus opening up trading opportunities on oil futures markets for Iraqi agents abroad. 271.114 Or. as offe diplomat says; it

may be that Mr Saddam is as recalcitrant as ever. "It's just that he hates being ignored." But on one issue the analysts and diplomats agree. Eventually one such Iraql overture will prove to be genuine. But

only Mr Saddam will deter-

mine which one.

Argentina under scrutiny by IMF

Claims by .. Mr. Domingo. Cavallo, Argentina's economy. minister, that growth could accelerate to 8 per cent this year will face scrutiny today when a visiting team from the International Monetary Fund begins its inspection of the nation's fiscal accounts, writes David Pilling in Buenos Aires.

The Fund: which led a \$7bn (£4.6bn) Argentine rescus package last year in response to the economic crisis sparked by Mexico's devaluation, will assess a request for around 51bn in further loans in 1996.

Apart from establishing realistic growth prospects for this year, estimated by private economists at 3 per cent, the IMF team will also insist. Argentina take strong measures to curb public spending and raise tax collection. Last year, recession and dis-

appointing tax receipts led to an estimated fiscal shortfall of \$1.2bn against the \$4.4bn surplus initially targeted by the Fund. The economy, strangled by capital flight of \$8bn, contracted by around 2.5 to 3 per cent.

Last week, Mr Cavallo predicted 1996 would be a year of "recuperation" and "a very vigorous economic growth path of the same magnitude we saw between 1991 and 1994, with annual growth rates of close to 8 per cent." The 1996 budget is based on a growth forecast of 6 per cent.

Mr Pedro Lacoste of Alpha economic consultancy said Mr Cavallo's optimism relied too heavily on the supply side to push activity and underestimated restraints imposed by sharply reduced demand: In "booming" capital markets, "the consumer rebound will be slow because the guy on the street is concerned about his future income and about job security," he said.

Pondering a first taste of democracy a-Din post office to voice their

Through the small towns and dusty villages of the West Bank, voting in the first elections of the fledgling Palestinian state was very much 8 fam-

Husbands, wives and children crowded into the voting booths together, the adults try-ing to fathom the complex ballot papers while keeping their children quiet.

Tolerant election officials. many of them schoolteachers or local government clerks. painstakingly ticked off names on well thumbed voters' lists,

Lestie Crawford in Mexico City

former Mexican president.

Britain and Mexico are discussing an

agreement allowing proceeds of crime

in one country to be frozen in the other,

possibly paving the way for retrieval by

Mexico of bank deposits held in London

Mr Raul Salinas is in jail in Mexico

facing murder charges and separate

allegations of illicit enrichment while a

paid government official from 1976 to 1992. Over \$100m has been found in

Swiss bank accounts beld on his behalf,

some in false names, and \$22.7m in his

name at the London branch of Citibank.

The agreement between the UK and

by the brother of Mr Carlos Salinas,

odd bit of consultation between the makeshift cardboard booths. Security men marshalled the crowds, but there was little sign of interference.

In Dhahiriya, a market town on the road south from Hebron to Beersheba, the atmosphere was overwhelmingly good-humoured, suffused with scarcely suppressed excitement. By mid-morning as many as one in three of voters had already passed through the booths, placing their folded and sealed ballot papers - red for the president, white for the Palestinian legislative council, the fnture parliament - in padand turned a blind eye to the

It was a stark contrast to the mood in Hebron where Israeli settlers live in a state of permanent armed confrontation with the Arab population, and in east Jerusalem, where Israeli security forces patrolled

In both places, voting was a trickle, and the atmosphere was fraught. It was a stark reminder of the underlying problems that remain in creating a peaceful Palestinian state side-by-side with Israel. In Jerusalem, the Israeli authorities refused to allow

insisting that Palestinian resi-

dents of the Old City attend

public post offices, and send their ballot papers like postal votes through the postal service. Would-be voters were forced to run the gauntlet of Israeli police roadhlocks before they could get near the post offices. For much of the day, police cameramen were ostentatiously filming everyone who passed through the doors.

From the Palestinian left, and Israeli right, protesters attempted to disrupt the voting process, in an extraordinary alliance of antagonistic inter-

Black-coated orthodox Jews sought to break through 8. police cordon near the Salah

voted by lunchtime..... UK, Mexico may act | Samper urged again to motion asking the county court in Santa Ana to order Mervill to give them copies of transcripts of testimony and transcripts of testimony and

President Ernesto Samper of Bolivia, dogged by accusations that his campaign was funded by drug money, yes-terday faced further calls for his resignation and greater information about the funding issue. In a full page interview in the leading Liberal newspaper El Tiempo, former trade minister Juan Manuel Santos urged the president's campaign manager, Mr Fernando Botero, to speak out on the subject.

Mr Botero quit as defence minister in the Samper government when named by the campaign treasurer in connec-tion with Call cartel contributions to the Liberal party election campaign. Mr Botero is being held in an army

barracks and a recent Gallup pol showed that over half the respondents Heve he is protecting the president. Mr Santos, who is a probable candidate for the next presidential elections. said Mr Samper should resign if the prosecutor-general rules the campaign involved use of drug money, whether or not the president knew about the contributions. Mr Samper has said if there were such contributions they were made behind his back.

Last week, Liberal Senator Maria Izquierdo apparently corroborated the former campaign treasurer's testimony when she said told the Supreme court she had received some \$30,000 in cash in cardboard boxes for Mr Samper's

Big rise in pharmaceuticals sales

Mexico could be concluded in the next

few months. This would allow an appli

cation from the UK's Crown Prosecu-

tion Service for the account to be for-

mally frozen. Once frozen, the Mexican

government could start proceedings to

Citibank has informally blocked the

London account. An existing accord

former President Salinas on a 1990 visit

to Britain - only permits freezing

accounts if the funds can be shown to

An international investigation of the

former president's brother is examining

the possibility that be was involved in

the drugs trade, an allegation he has

be derived from drug trafficking.

between Mexico and the UK - signed by

retrieve the funds.

World drugs sales for the first 11 months of 1995 surpassed the total for the whole of 1994. according to figures published

Sales in the world's 10 big-gest markets were worth \$125.7bn (£83.2bn), up 8 per cent, excluding currency effects, on the figure for the same period of the previous

than the total for all of 1994, according to IMS, the specialist

faster than the 5 per cent recorded a year ago and was driven by sales in the US and Japan, the two biggest mar-

Sales in the US of \$52.2bn were 10 per cent higher than in the first 11 months of 1994. in Japan, sales amounting to \$24bn represented an increase of 9 per cent. The slowest growing market

was Italy, where stringent government cost control measures have been imposed on the

drugs industry market pharmaceuticals sector. Italian \$13.1bn in the first 11 months researchers. Growth was much drug sales rose 4 per cent (to of 1995. drug sales rose 4 per cent (to of 1995. \$7bn) compared to 1994.

Among the rapidly growing markets was the UK, where sales rose 9 per cent to \$5.7bn. relatively low base. Sales in France rose 6 per cent to \$13.7bn, while those in Germany increased 7 per cent to

By medical area, the fastest growing sector is treatments for respiratory diseases such as asthma. Sales in the top 10 markets climbed 13 per cent to

Three other areas grew at 12

 Nervous system drugs, with sales of \$16.2bn; the area includes anti-depressants such as Prozac, made by Eli Lilly of the US. Anti-infectives, with sales of

\$13.1bn; the area includes antibiotics such as Augmentin, made by Anglo-US company SmithKline Beecham. \$7.1bo. The sector includes the

									_
World pharm	nacy drug	purci	18205	January	Novem	ber 19	95 in	US\$m	
	N. America	Japan"	. Бегачалу	Prace	Italy	uk	Spain	Netherlands	_
Cardiovascular	8,179	3,690	3,501	3,255	1,495	947	862	344	_
Alimentary/Metabolism	8,482	4,437	2,586	2,141	1,184	1.139	720	425	
Central Nervous System	9:182	1.177	1,654	1.639	728	805	538	229	

Anti-infectives Musculo-Skeleta

lowers cholesterol levels and includes Lescol, made by Switzerland's Sandoz

drugs, are both aubject to

The largest two areas, heart disease and digestive system

heavy competition and sales posted slower growth. Heart drug sales rose 4 per cent to \$22.6bn and digestive

By country and medical area, there were some poor perfordepending on competition, government price controls and new product launches.

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Suppliers predict recovery for railway rolling stock

By Charles Batchelor. Transport Correspondent

Train operating companies are poised to resume ordering new rolling stock after a gap of more than two years. Manufacturers have been closing factories and making staff redundant because of the lack of new orders in the period before privatisation of the national network. But they now expect orders to be placed this year.

The companies which have disclosed plans to buy trains are: British Rail, the remnant of the

Railtrack, owner of the national railway network's track and signalling, has been given an additional £84m (\$128m) this year to make up for the penalties it is obliged to pay train operators for delays caused by points failures and signalling break-

has invited suppliers to prequalify to hire trains to train operating compa-nies. BR said it wanted to get preliminary work out of the way so any of its subsidiaries which have not been privatised will be able to order new rolling stock without delay. BR has placed a notice in the Official Jour-

downs. But this compensation will £90m. Details will be announced be cut to £10m in 2000-2001 to tomorrow when Railtrack encourage Railtrack to improve the ageing infrastructure it has inherited from the state-owned national year's bill for penalties will be

nal of the European Union, where large public sector contracts must be publicised.

• M40 Trains, a management buy-out team which is bidding to acquire the Chiltern Rallways franchise between London, the Chiltern Hills and the city of Birmingham. It

announces its results for the six months to September 1995. The state-owned company is believed to network now being privatised. This have made a profit of nearly £100m on turnover of about £1.1hn.

> has also placed a notice in the Official Journal for six diesel-powered cars with an option to acquire up to a further 24.

 Enterprise Railway, the management buy-out team which acquired the London, Tilbury & Southend rail franchise last month. It has said it

return for being granted a 15-year

In addition to these announcements, Mr Roger Salmon, the franchising director, said last week that he would be prepared to consider 15-year terms for the Gatwick Express franchise and others if the bidders were prepared to invest in new rolling stock. Gatwick Express runs non-stop trains between London Victoria and Gatwick Airport

Rolling stock manufacturers well comed signs of a renewal of orders but sounded a note of cantion. "These are small numbers of trains

plans to renew its rolling stock in and we do not know what type of rolling stock these companies will be looking at," said Mr David Gillan, the director of the Railway Industry Association.

ABB Daimler Benz Transportation, which closed most of its factory in the northern England city of York because of a shortage of orders last year, said it saw "a glimmer of hope". for new orders

British Rail, the heir to the national network nationalised in 1948 is being replaced by a fragmented system in which the main elements will be Railtrack and a series of train operating companies.

Vibrations trouble advanced P&O liner

By Our Transport Correspondent

The Oriana, the £200m (£304m) fiagship of the P&O fleet of cruise liners is to be fitted with a complete new set of propeller blades because of problems of vibration at high speeds. A ceremony of naming the ship by Queen Elizabeth II was held

only nine months ago. The ship, described as the fastest cruise liner to be built in more than 25 years, is unable to sail comfortably at its maximum cruising speed of 24 knots and is restricted to a

more sedate 22 knots. The Oriana – now on its way to the Panama Canal on its first round the world cruise can fulfil its published time table of sailings at the lower speed, P&O said. But the ship was designed to operate at high speeds so that it could reach the Mediterranean and Caribbean from the UK with

the minimum of delay.

Replacement blades for the vessel's two 32-tonne propellers have been supplied by Lips. the Dutch manufacturer. But an attempt to fit them earlier this month was postponed when high winds prevented the Oriana going into dry dock at Southampton in southern England. P&O now expects to fit the blades when the vessel goes into for regular maintenance later this year.

P&O played down the significance of the problem which it said affected only a small num-ber of cabins if the vessel was sailed at top speed. But it is an embarrassment for the com-pany which has promoted the vessel as the latest in comfort and high technology...

"Designing propellers is more of an art than a science," said Mr Gwyn Hughes, manag ing director of P&O Cruises. But in a glossy commemora-tive book produced at the time of the naming ceremony P&O emphasised the computer controlled technology which had gone into their design. The pro-pellers "not only drive the ship through the water efficiently and economically bot also, by their smooth running, belp make life on board as pleasant as any first-class hotel ashore,"

The company is in negotia-tion with the Meyer Werft yard of Germany — and yesterday said that it expected the shipbuilder to meet the costs. Lips said that propellers fully met the specifications set by P&O.

Labour party Hope rises for first general election victory since 1974 Centrist Growing fear of change leader

speaks of e coalition

> Mr Paddy Ashdown, leader of the centrist Liberal Democrat party, yesterday raised the ssibility of a coalition with

By George Parker

The Liberal Democrat leader, normally reluctant to discuss post-election scenarios. even conceded that he or other senior party figures might be prepared to serve in a Labour cabinet. The party, a successor of the reforming Liberal party of the late 19th and early 20th century, is the third-largest in the House of Commons, but has far fewer MPs than Labour

or the Conservatives. Mr Ashdown will tonight set out terms and conditions for working with Labour in the next parliament. But many Liberal Democrats remain deeply sceptical about Labour. Mr Ashdown, however, is convinced that co-operation with Mr Tony Blair, the Labour leader, offers the best chance of putting his party's policies

into practice.

Mr Ashdown said on BBC television that he wanted to see clear commitments from Labour on education, the environment and the European Union. Mr Ashdown's aides said there was no question of any formal coalition with Labour unless Mr Blair offered a referendum on electoral

"I belteve the things that. need to be done in this country. cannot be done unless you have a modern constitution. That is the enabling measure that makes the other things possible," Mr Ashdown said.

Asked if he would be prepared to join a formal coalibe replied: "Of course. If the mathematics said that, if the policies were agreed between us, if they were putting into practice the things that we believe in, that's a possibility.

But it is also a possibility that we vote them down if that is not what we believe needs to be done for this country." He refused to rule out joining a Blair cabinet.

Editorial Comment, Page 13 policies.

grips City of London

Investors recall all too well the rampant inflation and high interest rates of the 1970s when the Labour party was last in power. Now every by-election loss for the Conservative party and every report of government infighting sends ripples of fear across the City of London at the prospect of a Labour

For many investors, particularly foreign investors, their perception of Labour is inflation, and perception is everything despite what happens in fact," said Mr James Johnston, an investment fund manager at AMP Asset Management.

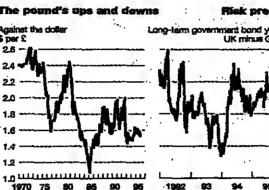
"Labour have not been in power for 16 years so many international investors simply do not know what they are in for " said Mr Lee Ferridge, currency strategist at NatWest Markets. Last summer's battle for

leadership of the Conservative party between Mr Major and Mr John Redwood, a former member of his cebinet, caused a sharp drop in the price of UK government bonds as investors leared that a general election was being brought closer. The Lahour has been far ahead of the Conservatives in opinion polls for many months. The risk premium demanded

by bond investors for investing UK government bonds already substantially higher than in, say, Germany, where the authorities have a better track record in keeping inflation low - rose sharply at the time of the Conservative leadership battle. Investors were afraid that a Labour government - high spending and inflationary - was imminent.

Labour is now trying hard to convince the investment community that it could be trusted general election victory. There are signs that its efforts are beginning to reap rewards.

than any aversion to Labour



We have from Tony Blair [leader of the Labour party] a statement of intent which looks very responsible," said Mr Avinash Persaud, the head at the US bank J.P. Morgan. "But the market simply does not know how Labour will

react under unanticipated Mr Stephen Lewis, head of research at the London Bond Broking Company, thinks that financial markets may look more favourably on the prospect of a Labour government than on the current Conservative government. This is because a Labour government with a strong parliamentary majority would offer investors greater certainty than a Conservative government with only a slim majority in parlia-

"At the moment the prime minister has to zigzag between two opposing policies to appease each side of his party," he said. "This creates uncertainty and markets hate uncer-

What's more he thinks Labour's more pro-European stance might find greater favour among non-UK investors than the Conservamore lukewarm approach to the European Union. He thinks investors would feel happier putting their money into a country

weaken as an election nears but more because of the current government's actions than

He said: "It is not so much a fear of Labour as the suspicion that we are now entering a political phase when interest rates will be manipulated for political gain.

He thinks there will be more interest rate cuts as the government attempts to conjure np the elusive "feel-good" factor among consumers and hence to win more votes for itself. He also believes that this "erase support for will sterling".

Last week's quarter-point cut in interest rates was greeted by widespread suspicion among City economists that it was done for political rather than purely economic reasons although financial markets reacted favourably to the

Mr John Shepperd, chief economist at Yamaichi International, a Japanese bank, points out that most large investors have very short-term time horizons - they are judged by their performance over just a few months rather than years. As a result, be thinks investors have not yet in late 1996 or 1997 - when it is expected to take place account yet.

"When there is an election, overseas investors will ignore the UK gilt-edged market. while UK investors will look abroad," he said.

before the event and then

UK NEWS DIGEST

Ireland gang beats man with hammers

Two gangs claiming to belong to the Ulster Freedom Fighters, an outlawed anti-nationalist group in Northern Ireland, beat a man with hammers and baseball bats and wrecked his flat and a nearby one in the west of Belfast, the region's capital. The attack was the latest of a series of acts of violence committed since the ceaselires were declared in 1994 by the hish Republican Army and its anti-nationalist rivals. The man beaten in the latest attack was later treated in hospital for head and body wounds. At the second flat masked men asked for a person by name and, when told he was not in, wrecked the place.

Later Mr John Taylor, deputy leader of the Ulster Unionist party, the largest pro-British party in the region, said he believed that the international arms commission led by former US senator Mr George Mitchall would be unable to end the deadlock over "decomm sioning" of weapons held by the IRA and its rivals. The commission is due to report on

Sell-off deadline missed

The government has missed its January 2 eadline for vesting AEA Technology, the consulting arm of the Atomic Energy Authority. which is to be privatised this year. But the Department of Trade and Industry said sell-off plans were still on track. Vesting is now likely in March, and the government still hopes to sell the company this year as planned. The department said January 2 had been "a planning assumption" not linked to an actual sale David Lascelles, Resources Editor

Stores group may protest

Tesco, the store chain which claims to be Britain's higgest retailer of petfoods, may complain to the Office of Fair Trading about what it claims are restrictive trade practices in the petioods supply industry. Tesco says several specialist manufacturers have refused to supply it. "We know our customers want these products, but for too long Britain's pet owners have been paying over the olds," said Mr John

Gildersleeve, a Tesco director. The company says some manufacturers will supply petfoods only through outlets such as veterinary surgeries and independent shops. Specialist petfood manufacturers say they prefer to sell through outlets where knowledgeable staff can give advice about which products are appropri-ate. Neil Buckley, Consumer Industries Staff

Church leaders to complain

Mrs Virginia Bottomley,

LOTTERY nobody wins the top prize in one week's draw it is "rolled over and added to the next week's prize. Nobody won yesterday's £25m jackpot which will therefore be added to this week's to make a top prize likely to exceed £40m (\$61m). Mrs Bottomley will meet senior representatives of the Roman Catholic Church, the Methodist and Baptist churches and the Protestant churches of England and Scotland. The Right Reverend Philip Goodrich, Church of England bishop of Worcester, said: "If it gets bigger and bigger, where is it going to stop? I would rather see a lot of people being helped than it going to help one person."

Stabbings mark end of knife amnesty: An unarmed policewoman and-a businessman helped to disarm a man with a long knife after a 35-year-old woman and her 21/2-year-old son were killed at one of Britain's busiest railway stations in the city of Birmingham. Later the woman's three daughters were found stabbed in the family's home. The killings occurred on the last day of a month-long national amnesty for people to hand in knives to police. The sty was called after the murder by stabbing of a London head teacher near his school while he was defending pupils.

Spaceman ousts George Michael: George Michael's song Jesus To A Child, his first No 1 in Britain for 10 years, has been ousted from the top of the pop music chart by a song called Spaceman from an unknown band chosen to back a television commercial for Levi jeans. Babylon Zoo is led by 24-year-old Jas Mann, a songwriter of Asian and native American ancestry based in the English Midlands city of Wolverhampton, Mr Clive Black, UK managing director of EMI and the man responsible for signing the band, said Spaceman "looks like being EMI's biggest-selling single since the

national heritage secretary and minister in charge of the National Lottery, is to meet church leaders about their con-cern that top prizes in the lot-

tery are becoming too big. If

There's no such thing Few analysts anticipate that as a free lunch... a Labour victory would in fact that was set to play a full part in European integration than precipitate a sterling crisis of a bond market crash. Many Meanwhile, Mr Johnston one which was going to stand think that the pound and gilts recalls the last general election four years ago. He said: "In 1992, financial markets largely Mr Steve Hannah, an analyst will weaken as a general elecin London at IBJ International. tion approaches - but they think this is due more to invesa Japanese bank, thinks the ignored the possibility of an pound and bond markets will election until two months tors' dislike of uncertainty

German-style boards lose favour

By George Parker

The Labour party's commitment to building a "stakeholder" economy will come under renewed scrutiny next month when the party backs away from proposals for German-style two-tier company

Labour was attracted to the idea of supervisory second-tier Stuart Bell, the party's shadow boards as part of its drive to make directors more accountable and to curb excessive boardroom pay rises. But many the proposals, which would

side interests - including representatives from the local

Although the idea has strong

community - a direct say in the running of companies.

resonance with party leader Mr Tony Blair's vision of a "stakeholder economy", a party committee on corporate governance will conclude that it no longer has a high priority. The committee, led by Mr

corporate affairs minister. believes that workers' councils will be more effective in pro-"Labour is downgrading Its emphasis on two-tier boards on

councils will give a more effective voice to the workforce than a supervisory board," a senior party official said. Under the provisions of the

European Union social chapter - which Labour is committed to implementing – large com-panies are obliged to consult workers' councils. "We are interested in the supervisory board system, but if workers' councils take off that might be a more attractive proposition," the official said.

German boards consist of a management tier which runs the company and a supervisory tier including shareholders and expressed its enthusiasm for the idea. The Labour committee, which includes Mr Alistair Darling, the party's spokesman in parliament on the City of London, is expected soon to produce its final proposals on corporate governance and regulation. The plans will then be submitted to the party's policy forum and the annual party conference in October.

The proposals are expected to call for a ban on new executive share options and the creation of a Companies Commission, charged with policing the Companies Acts and with supervision of Stock Exchange

Prosecution office may be replaced

and George Parker

The Labour party is considering scrapping the Serious Fraud Office (SFO) in its present form and absorbing it within a new Companies Commission, responsible for policing City and corporate

Tha acquittals in the Maxwell trial, and the £11m (\$16.8m) cost of the SFO prosecution, has persuaded Labour of the need for sweeping reforms of the way allegations of fraud and other corporate crime are investigated.

The news came as the SFO. said that further prosecutions of Mr Kevin Maxwell and others over the collapse of the Maxwell empire remained a

posals is the creation of a Com- The two Mr Maxwells are sons panies Commission, operating as an arms-length government agency, taking on powers of investigation now held by the government's Department of Trade and Industry.

the role of investigation out of the hands of politicians," said Mr Stuart Bell, shadow corpo-rate affairs minister.

the accountancy profession.

"The aim would be to take

The proposed commission would enforce the Companies Acts and supervision of Stock Exchange listing requirements. Its remit would also include the regulation of the City and

The acquittals last Friday of Mr Kevin Maxwell, his brother charges of conspiracy to lan and Mr Larry Trachtenberg, a former adviser to Robert Maxwell, precipitated criticism of the SFO for having would make any further prose-

of Robert Maxwell, the late publishing magnate

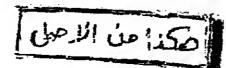
But the SFO said it was "by no means a forgone concinsion" that the office would respond to criticism by dropping outstanding charges against Mr Kevin Maxwell and five other former Maxwell directors. Although acquitted of fraud charges against pension funds involving £122m, Mr Kevin Maxwell still faces charges alleging that he defrauded others, largely banks, of £172m. Mr Ian Maxwell, Mr Tracbtenberg and three other former Maxwell directors also face further

The criticism of the SFO following Friday's acquittals At the heart of Labour's pro- failed to secure convictions, cutions both politically and

legally difficult, it is acknowledged in the office. Some lawvers close to the case suggest that future trials would require the tacit approval of the attorney-general Sir Nicholas Lyali and possibly other ministers. The SFO would face consid-

erable legal burdles. Lawyers for Mr Kevin Maxwell have argued that any future prosecutions would be "oppressive" However, it is understood that some in the SFO are maintaining a robust attitude to the case. It is thought possible the SFO may press ahead on two of the ontstanding charges. One alleges a \$35m fraud against Swiss Volksbank over the use of shares in Berlitz, a former subsidiary of Maxwell Communication Corporation. The second alleges a £50m fraud against Mirror Group

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Germany's coalition left right out

When Kohl came to power in 1982, centre-right was as good a shorthand as any to describe his government of the Christian Democratic Union, the Christian Social Union (the CDU's Bavarian sister party) and the Free Democrat Party. At that time, the coalition's centre was the FDP, most of whose MPs had deserted, and so destroyed, the previous Social Democrat-led centre-left coalition of Chancellor Helmut Schmidt.

Admittedly, there seemed little to choose in ideology between Schmidt and Kohl. But Kobl's Christian Democrats certainly looked and

DATELINE

Bonn: Can a centrist social market approach cope with the competitive pressures of globalisation? asks

in a bad way, having suffered a string of electoral defeats in state elections. He is trying to mark out a role for the FDP "as the one and only liberal free market party in Germany" stressing the need for tax cuts and reduced state activity.

ment of his coalition partners. Where once the FDP could occupy

This overlap is personified in Nor-bert Blum, the CDU labour and

Woche concluded last waek that there was little to choose between SPD and CDU in terms of social, financial and foraign policy. Although the two sides differed on home affairs and economic philosophy, in many areas the CDU was closer to the SPD than the FDP.

Even Theo Waigel, the Bonn finance minister and CSU leader, appears less than a paragon of austerity on close inspection. But he is not above hymning the praises of the federal government's swollen social security budget. By some standards, his target of cutting public spending as a share of gross domestic product to 46 per cent hy 2000 from just over 50 per cent now is hardly ambitious.

It was probably a mistake ever to expect Germany's Christian parties to be more right than centre. The country's grim history in the first



half of this century has placed a premium on stability and consensus. The CDU and CSU are themselves coalitions. In their earliest days after the second world war, they provided a political home for the Catholic and protestant working class that did not wish to identify

with socialist political movements. The strong social element of Germany's Christian parties was apparent from the start. It was the CDUled government of Konrad Adenauer, West Germany's first chancellor, that introduced inflation-proof ponsions and institutionalised co-operation between workers and management giving workers seats on company boards.

The big question is whether Germany's centrist "social market" approach can cope with the competitive pressures of globalisation that have prompted German companies to invest heavily abroad and have contributed to the upward march of unemployment towards 4m.

An important test comes at the end of this month when the government will unveil "an action programme" of deregulation, tax changes and welfare reforms to increase jobs and growth. The details of that programme should also decide whether we can revive the idea of the coalition being "centre-right". If so, the CDU will be the centre and the FDP the right.

FT GUIDE TO

sounded right wing compared with

most of the former chancellor's fol-

lowers in the SPD. The CDU came

to power pledged to cutting deficits

and rolling back the state. And

although it quickly became clear

that Kohl was no free market radi-

cal, those of a right wing bent could

take heart from the blustering pres-

ence of Franz Josef Strauss as head

centre-right coalition today? Cer-tainly not in the CDU or CSU if you

follow the analysis of Guido Wester-

welle, the FDP's preppy 34 year old

secretary general. His party, he

recently declared, was "oot Ger-

many'a fifth social democratic

party". With that remark, Wester-

welle put the CDU and CSU in the

But where is the right wing of the

of the Bayarian CSU.

and the Greens.

THE BROADCASTING BILL Why do we need another Broadcasting Bill? Wasn't there a perfectly

Everything has changed since then. The government believes in the convergence of broadcasting, telecommunications and computing so the aim is to liberate British media companies from petty restrictions to compete on the world stage, not to mention the arrival of digital terrestrial television. It's also nice to be able to fix flaws from last time auch as the daft insistence that 51 per ceot of Independent Television News should be sold to non-broadcasters.

So what's the higgest change? Last time the government believed that to protect diversity of opinion and prevent the creation of vast media conglomerates different media should be kept separate. National newspapers were only allowed to own 20 per cent of a television station and vice versa. And "big" ITV companies - 10 of them were judged to be "big" - could not take over each other. Now newspapers will be able to take over television, radio, cable and satellite operators and ITV companies will be able to do virtually whatever they like.

Virtually?

There are limits. The old rules will still apply to Rupert Murdoch's News International because it has such a large share of the market. And to avoid the appearance of being anti-Murdoch, the Mirror Group will be roped in too. But ITV will have tremendous freedom. There will no limit on the number of licences beld. A limit will be 15 per cent of the total television audience, including BBC viewing.

But that's huge. Quite so, Carlton Communications, the largest ITV owner, only has 9.4 per cent of the total audience, so expect the takeover battles to begin in the summer. With the exception of News International and the Mirror, lobbyists got exactly what they wanted.

Does this mean that Associated Newspapers, for example could suddenly buy large ITV companies as well as owning the Daily Mail? In theory it will indeed be possible. Because the rules probably won't change until January 1 next year the share prices are likely to reflect full value by then and the greatest economies of scale will flow to ITV companies which take over other ITV companies. Associated, owner of the London Evening Standard, might be able to take over Capital, the London commercial radio group.

What's this about digital terrestrial television?

The government believes the UK is in the lead here and sees the opportunity not only to broadcast 20 channels of digital television from ordinary transmitters to conventional home TV aerials, but also to export the digital "black boxes" needed to receive the pictures.

How realistic is this ambition?

The British technological lead is real. But how will digital terrestrial compete commercially with digital satellite, which is likely to be broad-casting 150 channels before the 20-channel system gets going? As usual Mr Murdoch holds the key. After all, he has something to show - all the rights to movies and lots of exclusive sport.

Sports rights. Isn't that a bit controversial?

David Mellor argued vociferously during the passage of the 1990 Bill that protection should be removed from sports events including the Grand National, Wimbledon and the Olympics. They could disappear off terrestrial television and he shown on a subscription sports channel, although charging separately for each event was banned. Sports rights owners should be able to get a fair market price Mr Mellor argued.

He has now changed his mind? Indeed. The former broadcasting minister plans an amendment to restore the listed events protection.

Will the government accept the amendment?
They've got one leg on each side of the fence at the moment. They still believe in the market and the rights of sports owners. Absolutely. But the viewers as voters could turn nasty if Wimbledon was to disappear from terrestrial television.

Any nice, sensible, rational hits in the Bill?

A few, mainly fixing mistakes and inconsistencies from last time. The ITV companies were given the right to negotiate a second 10-year licence without another franchise auction. No such provision was made for the three national commercial radio stations. Now renewal will be possible, although the oational station will have to invest in digital

Any more? Channel 4 will oot have to pay quite so many hundreds of millions of pounds to the ITV companies under a funding mechanism designed to protect Channel 4 from collapse. Channel 4 wants the government to abolish the funding formula altogether.

What happens oext? Apart from bankers and takeover specialists getting richer and more ast staff losing their jobs, probably not a lot. Except that by July when the 1996 Broadcasting Bill gets Royal Assent the lobbying will get under way for the next broadcasting bill which cannot be far off.

Raymond Snoddy



Peter Norman

same left of centre pot as the SPD Westerwelie's analysis is not But you do not have to buy Wesentirely disinterested. His party is terwelle's politics to realise that of the opposition SPD.

a space between the CDU and SPD. giving it the opportunity to coalesce with either, there is now an overlap between the left of the CDU/CSU and the right of the SPD.

social affairs minister who, like Kohl, has been doing the same job in the cabinet since 1982. Blilm is determined not to dismantle Germany's generous welfare state, has been an enthusiastic promoter of new social programmes and has resisted deregulatory steps such as a liberalisation of shopping hours. Hans-Olaf Henkel, the head of the German federation of industry, once declared that he could detect no difference between Mr Blum and Rudolf Dressler, the social affairs expert

PEOPLE

screens, was born in the Italian

town of Brunico in south Tirol. He

puts his success down to one thing:

programmes - US and home-pro-

duced - and the presenters, staff,

technicians and producers are

young, reflecting Pro 7's bid to cap-

ture the younger generation.
Of course Koffer can rely on the

extensive Kirch film library, but not

exclusively. "Programming is cost-

ing more and more," he says. This

partly explains why Pro 7 joined

forces with Rewe, which paid "at

The deal gives Pro 7 access to

more than just capital, however. "It

la a perfect marriage," says Kofler.

"We get management know-how

and will be able to distribute our

products - tapes, CD-roms and

T-shirts - through Rewe, while

Rewe will get access to our screens.

More importantly, this partnership will give us stability... We need not worry about being taken over."

least DM100m" for its 40 per cent

share, according to Kofler.

The audiences are given a mix of

"top class entertainment".

Kofler in the German television big league

Judy Dempsey meets Pro 7's restless chairman

here seems to be no stop-ping Georg Kofler, the 38year-old chairman of Pro 7, Germany's indapendent commercial television network. Earlier this month, he surprised the media world by announcing a partnership with Rewe, the country's largest retailing group.

Then last Monday, Pro 7 launched a half-hour news programme at prime time, investing DM30m (\$21m) in equipping new studios. In March, it teams up with Focus, the weekly magazina owned by the Burda publishing group, on a new documentary series to compete with

And later this year Pro 7 will become Germany's first broadcast-ing network to be listed on the stock exchange - offering 35.5 per cent of its shares. "We want to be taken seriously. We know where we are going," says Rofler.

Pro 7 has come a long way since it was founded in 1989 by a trio comprising Kofler, Gerhard Ackermans, a businessman, and Thomas

IN THE NEWS

Pin adds a bank to

his financial stable

Pin Chakkaphak, the charismatic leader of Thailand's largest finance company, Finance One, has finally

added a commercial bank to his

NAMES

Kirch, son of Leo Kirch, the Munich-based media mogul.

Kofler had left ORF, Austria's state broadcasting company, in 1987 to work alongside Leo Kirch. A unsuccessful and short-lived experiment followed, with a commercial channel called Eureka TV - Kofier still winces in recollection of the mistakes made there - before the launching of Pro 7. Despite difficulties in obtaining the channel's hroadcasting licence, Kofler soldiered on.

Today, Pro 7 enjoys a 10 per cent audience share, and is number one in terms of children's viewing, with 19.7 per cent - ahead of RTL, its main German competitor. It is in second place in the under-30 and under-50 age groups.

Even more surprising, Kofler is on the verge of making a return on Pro 7's initial start up costs of DM650m, with profits of DM180m forecast on revenues of DML2bn

Kofler, a restless presence, his office wall covered in television

stable of financial institutions, writes Ted Bardacke in Bangkok. His alliance with Thai Danu Bank did not exactly conform to the style of a man whose hostile takeovers, outspokenness and US birth and education have ruffled feathers in the clubby world of That banking.

Pin had been trying to take over

Bank of Asia for more than a year, but eventually opted for a "friendly alliance" with Thai Danu, the majority control of which will remain with the Tuchinda and Thavasin families. Finance One will get two seats on Thai Dann's five-member executive board, meaning Pin - who is fond of pointing out the difference between an aglie investment banker like himself and conservative commercial bankers - will face another set of negotiations before being able to sign a deal.

Yet some note that the 46-year old Pin showed soma rare "Thai" qualities of discretion and deference throughout the otiations with Thai Danu, first by keeping them secret for more than two years, and then by letting the bank'a president, Pornsanong Tuchinda, taka centre stage as the public became aware of tha

By linking up with Thai Dann instead of taking over Bank of Asia, Plu has, for the foreseeable future, ruled out the possibility of becoming a bank president, something he used to long for but claims he no longer desires. He may have lost some money in

impending deal.

the process. Bank of Asia soared far above Friday's close of Bt54.5 as Pin launched his takeover attempt last year, making each step more costly. Pin insists most of his approximate (and indirect) 25 per



Pro 7's George Kofler: determined to stay at the top despite competition,

There were also other pressures at work, too, as Pro 7's licence comes np for renewal in 1996: "Because of the Kirch connection, there was concern that Kirch was holding too many stakes in television." To make the ownership structure more transparent, Pro 7's management decided late last year to sell 40 per cent of its shares to a consortium of banks, which in turn sold them to Rewe this month.

Thomas Kirch's stake was reduced from 47.5 per cent to 24.5 per cent. The prospect of financial stability has given Kofler little reason to slow down. He knows that competition for a slice of the country's annual DM6bn advertising revenue is increasing all the time, just as the quest for greater market/audience share never eases. "We are in the big league now," be says. "The struggle is to stay there."

cent stake was purchased at Bt47 and that he will not dispose of it immediately.

Hundt's softer line ← The choice of Dieter Hundl as the next president of the German F. Employers Pederation (BDA) marks a decisive shift away from the hard line position German employers have adopted against trade unions during the last few years, writes Wolfgang Münchau in Frankfurt.

Hundt, the 57-year-old chairman of a mid-sized Swabian engineering company, and head of the Baden-Württemberg employers' federation, has a long record of striking wage agreements. Known as an experienced deal-maker, he was closely involved in clinching last year's wage agreement in the metal sector, which came after a

It turned out to be one of the most controversial wage agreements ever reached in the sector, and some metal industry employers are still railing against the agreement and Hundt in particular, after it cost some companies between 6 per cent and 7

Hundt will follow Klaus Murmann, the hard line president of the BDA, who is standing for the presidency of Unice, the European employers' federation.

per cent in added wage costs last

A similar shift away from the hardliners, towards the moderates, was also evident at Gesamtmetall. the engineering employers' federation. Hans-Joachim Gottschol recently announced he was stepping down as president of Gesamtmetall. He will be replaced by his predecessor, Werner Stumple, another experienced negotiator.

damaging strike in Bavaria. MUSIC

■ The traditionally slack period following Christmas finds record company publicity chiefs delving deep into their fevered vocabulary to promote strange, new acts. Most dislocating are ROC, whose music is described as "a mutoid melisma of nature in the raw, sonically undercharged. lo-fi lounge jazz".
It is a fair ecough description.

Their eponymous album on the Setanta label is a bewitching mixture of dreamy pop and shocking sounds. You will be in the middle of a bland piece of easy listening when what sounds like the helicopter charge from Apocalypse Now floats over a dissonant harmonica solo.

■ There is a serious outbreak of

falling stars this week: Hollywood's finest are tumbling en masse into Britain. Heat brings De Niro and

Pacino together for the first time since Godfather II. Harrisoo Ford

reprises Sabring, the sweet-and-sour

Bogart-Hepburn romance of the Fif-

ties. And Whitney Houston, who

made her starring debut with Kevin Costnar's last box-offfice hit The

Bodyguard, leads the feminist comedy drama Waiting To Exhale.

Only its workings have changed.

instead of playing the same role

over and over, stars come out of different holes in the night sky.

After boxers, deer hunters and taxi

with mere movie mortals?

Europe has few stars to call its

own, and when it does they usually

run off to Hollywood. So it makes

Who says the star system is dead?

■ Then there is Mr Bungle, a California band whose press release is in combative mode: "You and your accumulates into self-organised garments that grasp into the dead tree of non-being". Disco Volante (Lon-don) is a wilfully bizarre, cacophonous album, with so few concessions to accessibility that it deserves to languish in the cultish obscurity for which it is destined. It is a blessed relief to come to Céline Dion, whose For You may not be the most original piece of music in the world, but brings as softly back into the world of mel-

which is good news for linguistic purists, but bad for the rest of us who still find it difficult to reconcile the language with rock-and-roll. A poignant moment at the begin ning of Judy Garland: A 25th Anniversary Retrospective (Capitol), when young Dorothy wishes for "some place where there isn't any trouble" in her prelude to Over The

French of Dion's native Quebec,

Rombow. All her great movie hits are here, and there is a well-annotated booklet, but by the time we get to a gruesome dnet with Liza Minalli on Hello Dolly, we are all looking for a different place to be. Peter Aspden

FILM AND VIDEO

ody. The album is aung in the



drivers. De Niro plays a masterthief to Pacino's cop in Michael Mann's acclaimed thriller. Harrison Ford trades builwhip for romantic Almodovar is back this week, a bons mots in Sydney Pollack's liked-by some Billy Wilder revamp. And movie wild child more famous than any of his players, with The Flower Miss Houston - well, what sight could be more heartening than that Of My Secret. The indecipherable title conceals a darkly eccentric of a pop diva coming down to mix it comedy of human appetite.

star of our films is: Britishness. Madagascar Skin is a Beckettian Lean and meanly witty. buddy movie set in the country and

Attention-grabbing: Robert De Niro as career thief, Neil McCanley, in Heat

that is our national charm. ■ The week's best video is Steve

stars of its directors. Spain's Pedro The Innocent Sleep a sombre thriller set in the City. But both celebrate that dour, cross-grained humanism

McLean's Postcards From America: a grimly compelling gay fable cum And Britain? We know what the road movie, made by an English-star of our films is: Britishness. man all over the United States,

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Drowning, not surfing

Net culture has intimidated Japan, writes Richard Vadon

t a press conference to reveal plans for an information infrastructure. 1 the Japanesa telecommunications minister was asked his e-mail address. Not only did he not have one, he did not know what an electronic mailbox was.

Japan is thought of as a world leader in computer technology, but when it comes to the Net, it is lagging behind the US, UK and Germany. A table of Net hosts correlated with Gross National Product ranks Japan between Slovenia and Ecuador. The Internet Society's 1995 figures show that Japan has 96,632 hosts, compared with 241,191 in the UK, 207,717 in Germany, and more than 2m in the US.

That gap - between Japan and its industrial competitors - is becoming important. Japan's press is full of articles about the "crisis", and books with titles like The Threat of the Superhighway: The Danger of Annihilation facing the Japanese Information Industry have appeared.

The obvious reason why the Japanese have not taken to the Net is the English language. More than 90 per cent of communications across the Net are in English. The Japanese find English difficult to learn and their own language is difficult to use on the Net. Nor are they widely computer literate: fewer than 10 per cent of offices are computerised compared with 42 per cent in the US. Similarly, in tha US 52 per cent of personal computers are hooked into a network of some kind, but fewer than 9 per cent in Japan.

An important reason for low computer sales has been the lack of good localised software. The domestic software industry focuses on games or factory automation. Home-produced consumer level software is primitive. A package for the NEC computer line recently ran television ads emphasising that its word processing software now had lower case letters.

Yoshikazu Kurita, first secretary of the economic section at the Japanese Embassy in London, believes problems of language and computer literacy will be solved by the younger generation. He predicts that "in five to seven years we will have caught up with America".

The government is trying to use industrial policy to urge husinesses to enter the Net. But the government does not under-stand the information age. The Ministry of International Trade and Industry has set up a group to study the impact of a networked society on Japanese business

That betrays ignorance of the way the Net works. The Net has grown without top-down control. Government cannot dictate its development. Politicians like Al Gore, US vice-president, and Newt Gingrich, House of Representatives Speaker, realise this and put their trust in a new breed of entrepreneurs. Japan is trying to apply the policies it used with great suc-cesa in manufacturing to the Net and related multimedia and service industries. In the 1960s and 1970s, the government identified areas that Japanese industry should concentrate on, such as consumer electronics and cars. Recently that strategy has been less effective.

The Japanese government provides strong leadership and a rigid strategy," says Yasuki Hamano, an associate professor at the National Institute of Multimedia Education. "That is very dangerous."

Ironically, success in traditional industries has held Japan back. The recessions

there were behind-the-scenes similarities

of the early '80s and '90s have acted as catalysts for change in America and Europe. In the West, new businesses and new industries have grown out of the rubble of manufacturing industry. Small businesses have become engines for economic growth in the West. Microsoft is the obvious example, but there are many others.

E-mail illustrates how Japanese business is failing to grasp the Net's implica-tions. Darrell Berry, a multimedia designer responsible for the Outrageous Tokyo web site, says. "I have worked in organisations in Tokyo where the management have said 'But if we have e-mail, we can't control who is sending and receiving information'."

Berry's outsider's view on Japan is supported by Murota Masaki, the head of NTT (Japan's BT) Data in London. He thinks that the wey e-mail has taken off in the West, with companies like Microsoft encouraging its employees to e-mail the managing director, could never happen in Japan. "Japanese companies are very hierarchical. The free opinion exchange e-mail encourages conflicts with the hier-archy. The issue is control, at all levels. Power in Japan is a matter of age and seniority both socially and within the corporate world." he says.

That view is supported by the experience of Twics, the first IP-connected public access servica in Japan. When the founders of Twics tried to set it up they faced bureaucratic opposition. Twics' Tim Burress says the problem was thet they were challenging the entrenched way of doing things: "It took about a year for the first Japanese system to follow in our steps, but if we hadn't cut a path through all of



these obstacles, who knows how much longer it would have taken."

Burress feeis fundamental issues like cost need to be addressed before the language problem can be approached. The high cost of the Net in Japan has slowed growth and telecommunications regulations are rigid and anti-competitive. There is a struggle to reduce connection prices in a country where it costs \$1,000 to get a phone line, and local calls are billed by the minute. The early Net providers priced services 5-10 times higher than comparable services in the US and Europe.

Vision Network's Superball project is one of several thet aim to make the Net more friendly to Japanese. Vision Nat-work's Michael Frank believes that Asian culture in general is implicated. "Asian group dynamics, communities and communication atructures are not tha same as those of the West. The Net, especially e-mail, newsgroups and muds (multi-user dimensions), is based on an American rational dialogue structure.

"Asian communication is much harder to translate to Ascii, due to its reliance on physical expression, an understanding of the relative status of group members, ritu-alised language etc. This is why Superball is closely tied to real spaces, real events and real people." One of these real spaces will be Japan's first cybercafe. When the Japanese began to dominate

manufacturing. Westerners studied their techniques. Many were tried in Britain and alsewhere, with limited success. The failure was attributed to Western workers' inability to adopt Japanese culture. Perhaps the same explanation may be given by the Japanese for their failure to match speeds on the infobahn.



What does a VCR have in common with a spreadthe beginning of a bad finished its six-year passage through the Ameri-Jackson can legal system, ending

is a technology case that has gripped the computer industry, so much that an entire Who's Who of luminaries, including companies, users' groups, law professors and economists, have proposed themselves as "friends of the court" to have their say.

The case arises from a dispute between Lotus Development and Borland International, developers of rival spreadsheets in the late 1980s. Lotus' accusation was that Borland's Quattro and QuattroPro products had breached the copyright it owned in its 1-2-3 package. But there was no claim that Borland had filched any Lotus computer code, nor any suggestion that

sheet? That sounds like joke. But the question is at the heart of a \$100m court case that has just

The simple question was whether Borland was free to use Lotus's "menu tree" - its arrangement in 50 different menus and submenus of tha 469 commands by in the Supreme Court. It which users operated its program. Bor-land admitted having copied this tree; it argued that it needed to do so in order to encourage Lotus users who had devoted time and effort to understanding 1-2-3 to switch to its own spreadsheet, which contained its own quite different way of issu-

between the two products.

ing commands. Provocatively, the smaller software house claimed that Lotus had no valid copyright on which to base its claim. The disputed menu tree fell into a no-man's land between copyright and patent law.

Copyrights are easy to obtain by writing a copyright notice; but they are tightly

Menu trees spoil Lotus garden

Patants are expensive and hard to obtain, and limited to 17 years - but more widely drawn. Borland argued it was absurd for Lotus to claim the status of a literary work for a menu tree consisting of combinations of single words such as "file" and "print". It claimed that the 1-2-3 menus were a system that belonged in a patent portfolio

Borland tried to persuade the court to treat Lotus according to the lights of an 1879 case, Baker v Selden, in which a man tried to claim copyright over a double-entry book-keeping system that he had described in a book. The Supreme Court drew a distinction between his ideas themselves, which could not be copyrighted, and his explanation of them,

But the US judges in the 1990s preferred

drawn to protect not ideas themselves, a contemporary analogy: they drew a mparison between the 1-2-3 menus and the buttons used to operate a VCR. After filing in 1990, Lotus won at trial in the district court in 1992. The federal court of appeals reversed the ruling in 1995, arguing that the menus were uncopyrightable. Lotus appealed to the Supreme Court, which last week split down the middle on the issue and therefore left the appeal ruling intact without providing binding

guidance for future cases. It was not only the case's length that was remarkable. Although the legal fees were modest by American standards -Borland probably spent less than \$10m - it distracted the attention of both litigants from the more important changes that were taking place in the market,

While Borland, Lotus and the rest of the world were slugging it out in court. Bill Gates and his crew at Microsoft were

busily taking over the market. Making similar use of Lotus's menu structure without attracting a lawsuit, and taking full advantage of the market trend towards buying "suites" of software instead of stand-alone packages, Microsoft's Excel dislodged 1-2-3 from its pedestal to become the world's bestselling

While the case continued, Borland sold its Quattro products to Novell, and Lotus itself was swallowed up by International Business Machines, An even greater irony was a further market change during the period. The menu structure that the two litigants fought over has now become secondary to graphical interfaces. Most users now are more concerned with the placing and design of icons on the screen.

So was the computer industry wrong to take such interest in the case? Not at all. Even though the copyrightability of

pute, there are plenty of analogous issues and hig businesses that will still await a clear signal from the Supreme Court. Among the applications affected will be systems of voice prompts on telephone systems, such as for electronic banking, and also the applications programming interfaces (APIs) used by spreadsheets and other programs when they interact with an operating system. More important still is the question of copyright over the instruction set of microprocessors. At esent, intel dominates the world's supply of microprocessors with its x86 architecture - and it has used skilful litigation to discourage others from trampling too much on its patch. With copyright protection for the set of instructions its processors obey, Intel might be able to achieve a full monopoly almost overnight. That is

something no other company in the com-

puter industry would wish to see. The

next copyright case after Lotus v Borland

is likely to provide even more lucrative work for Silicon Valley's lawyers. Tim.Jackson@pobox.com.

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graphical interfaces may be less in dis-

Battle to block porn on the Net

Louise Kehoe on programs to limit the reception of 'inappropriate material'

and prompting heated debate between advocates of "free speech" and those who favour censorship of electronic

In the US, Congress is debating a bill thet would make illegal the transmission of "indecent" material over computer net-works. In Germany, a Munich prosecutor last month insisted that CompuServe block access to sexually explicit Internet discussion groups from its online service. In China, government officials have weighed in with warnings against Internet

Meanwhile, software ventures offering programs that block the reception of "inappropriate" material from the Internet are thriving as awareness of the potential

problem spreads. Employers, concerned about their poten-tial liability for condoning the display of sexually explicit material in the workplace, as well as loss of productivity, are among those beginning to use the blocking

Within the computer industry, programs that give computer users the ability to "self censor" are favoured over government controls, which many fear could sti-fle the growth of the free-wheeling Inter-

Bill Duvall, chief executive of SurfWatch Software and a pioneer of Internet devel-opment, says: "Twenty-five yaars ago when I wrote the original software which allowed access to the Internet, we had no idea what kind of information would be

"As Congress continues to dabate the

there is the potential of great harm to the

Internet." SurfWatch, based in Los Altos, California, employs students from nearby Stanford University to patrol the Internet in search of smut.

The company's software provides a predefined list of dubious Web sites and discussion groups, which are blocked. Updates are published monthly.

Keeping up with the proliferation of Internet sites is, however, impossible, and SurfWatch claims only to "reduce" access to sexually explicit material.

Cyber Patrol, published by Microsystems, takes a similar approach, with a "CyberNOT Block List" of researched Internat sites containing questionable

material An alternative method used in Net Nanny, published by Trove Investments of Vancouver, Canada, is to block all information containing trigger words chosen by individual computer users.

Graham Heal, manager of business development for Net Nanny, says: "We feel that the parent, the school or the employer is the one best suited to determine what their kids, or employees, should have access to." The program enables users to filter out any type of undesirable information, and to prevent young Net users from transmitting credit card numbers or their names and addresses, he says.

Problems arise, however, if common terms are added to the "banned" list. Moreover, determined purveyors of cyberporn tend to describe their wares in innocent terms to allude such filters. The only

Ornography on the Internet is workey issues of protecting our children, way to be certain no pornographic picfore, is to ban the reception of all graphics. severely limiting use of the Internet's

many valuable resources. Such drastic measures are generally unwarranted. The vast majority of Internet sites are "clean".

Parents worried that their offspring may deliberately seek out offensive material on the Internet can, however, monitor computer use with programs such as Win-Watch Home, developed by Humphries Wohlrab and Associates.

The biggest deterrent to adolescent exploration of cybersex may, however, be the rapid commercialisation of the Internet. Cybernorn is becoming expensive as sites offering sexual graphics begin to charge hefty fees for their wares.

Another significant development aimed at protecting the innocence of Internet users is a proposed reting system, supported by several leading computer and software companies. Much like a film rating system, it would establish guidelines to determine the suitability of sites on the

World Wide Web for different age groups. While public attention has been focused on cyberporn, a potentially greater danger lurks where it may be least expected: in online services specifically designed for

The dangers are illustrated in a recent message posted on America Online by tha mother of a nine-year-old girl, "The chat room said 'North Pole, chat with Santa', so I thought it would be OK... there was someone online who made sexually sug-gestive remarks and someone who asked her for her name and address."

FINANCIAL TIMES

NEW MEDIA & BROADCASTING CONFERENCE

London, 26 & 27 February 1996 This FT conference, the fourteenth in a successful series attended by movers and shakers from the media and telecommunications industries worldwide, will be examining the issues emerging from the convergence of computer, telecommunications and broadcasting technology, and the huge range of new business

opportunities this will provide. Topics include:

* The potential for digital satellite

★ Ia digital terrestrial a technology too far?

★ The role of terrestrial broadcasters in a 500 channel future

* The business case for new media services, home shopping and video-on-demand

★ Liberalising cable: lessons from the UK experience

* Is digital television a threat or an opportunity for cable?

* Finance for the multimedia future

★ Challenge and opportunity in new media markets; Asia and Latin America

Amongst the distinguished speakers:

Mr David K Elstein Head of Programming BSkyB

Mr Kelvin MacKenzie Managing Director
Mirror Television

Mr Romain Bansch Director General Société Européenne des Satellites

Mr Michael Starks Controller, Digital Broadcasting Project

Mr Rafael Pastor Executive Vice-President **USA Networks** Managing Director
USA Networks International The Rt Hon David Mellor QC MP Former Secretary of State for National Heritage, UK

Mr John F Killian President & Chief Executive Officer NYNEX CableComms pic

Chairman HTV Group plc Mr Bill Andrewes Chairman

Mr Louis Sherwood

Two Way TV Ltd Mr Don Cruickshank Director General

OFTEL Mr Marc-André Feffer Vice-President Delégué Général Groupe CANAL+

Mr Greg Dyke Chairman and Chief Executive Pearson Television Limited

Mr Koos Bekker Chief Executive Officer

Mr Peter Rogers Chief Executive Designate Independent Television
Commission

Mr Gottfried Zmeck Managing Director Kirchgruppe

Ms Jane Root Managing Director
Wall to Wall Television Ltd

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	sighti	Cyber sightings Stephen McGare

 A recent NOP survey commissioned by Yellow Pages the UK phone directory, found that half of those who were non-Internet users "well-insaid they were formed" about the Net, bnt believed it to be complex and difficult to use. With this in mind, the company has lannched Yell

lannched (www.yell.co.uk), a UK-based, searchable information service with summarias on nearly 3,000 UK Web sites. sorted by region and subject, and including a Film Finder feature, which gives details of programmes at 400 cinemas throughout the country. The US-Saudi Arabian Business Council (www.us-

saudi-business.org) has information on trade links as well as Saudi economic data. Has links to some heavy US hitters which are council members, such as Boeing, Morgan Stan-ley, Citibank and AT&T.

 The Association for Global Business has details of 1996, including a call for papers and details of its publication The Journal for Global Business, its alte: http:// sun1.iusb.edu.faculty/dagbetsi/ globhome/globus.html (phew!).

Greatwall Netcenter (www.win.net/greatwall) is a source for Chinese business and financial news, with Chinese and English translations of Chinese newspapers, a Chinese business yellow pages and an investors' club run by the US-based First Associated

Securities Group. • The CMS Business Intelligence Catalogue (unum.textor. com/cms) ia a searchable global list of more than 500 specialist business-alert publications and services, indexed

by subject and region. Gordon House Asset Management (http://gham.co.uk/ gham) has details of its Optimal Fund. At these sorts of sites I like to click down the directors' biographies, one of whom here bappens to be

Rupert Pennant-Rea. The Labor Policy Associa tion Online (www.lpa.org/lpa/ index.html) is the site for the public policy advocacy organisation of the senior human resources executives (personnel officers) of big US corporations. Informative and well laid out.

• The Association of Investment Trust Companies (www.iii.co.uk/aitc) is one of the new sites availahla through Interactive Investor along with Global Asset Management, Micropal and FT Magazines. The AFFC site has a directory and mini-profile of UK investment trusts. Well worth a browse.

• If you are a fan of author

Salman Rushdie, Robert Dae-

ley'a site (www.empirenet.com rdaeley outhors rushdie.html) has links to lots of interesting material, including Subir Grewal's excellent Rushdie page. No e-mail address for the elusive one, though . . . A site for tall people

(www.bluplanet.com/tallweb), run by Blue Planet Publishing. has information about clubs and events for tall people (6ft 2in is the usual qualifying limit, but who is to know?), and tips on where to sit in aircraft, which cars to buy and which to avoid, as well as lists of clothing and furniture suppliers, both shops and mail order.

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Type of Business

These sentiments, which would strike a chord m many boardrooms across the world, might once have been considered platitudinous. But a distinct note of anxiety is now discernible in discussions about

In part, this stems from the recognition that improved efficiency is no substitute for sales growth. In addition, the pace of innovation has become more frantic. Shorter product life cycles, the deregulation of markets, increased global competition and the relentless introduction of innovative products and services. often from previously unknown companies, have created a need to accelerate innovation.

Siemens' response to these pressures is to encourage every member of the staff to be more innovative. It has launched an innovation contest, an inventor's competition, motivation workshops and special training for its staff.

Siemens is not alone in adopting this type of measure to foster a culture of innovation. Full-blown innovation schemes have been introduced by companies including BP Chemical, BOC, 3M and Elf Aquitaine, while many others stress

innovation as a corporate goal. But encouraging individuals to be more creative only addresses part of the problem that companies have with innovation. Much of the diffi-culty lies in establishing a clear link between individual creativity

The debate about innovation extends to nearly all aspects of a company's operation. Over the past few years, a plethora of seminars. research and government initiatives have examined what it takes to cultivate and harness the creativity of employees.

The issues are only partially understood, according to Mark Brown, who was recently appointed to the newly established chair of innovation at Henley Management College. He is about to embark on a detailed study of the factors, ranging from empowerment to the willingness to applaud mistakes, that enhance a company's ability to

The dehate about innovation management is particularly intense in companies that are heavily dependent on research and developmeot. European and Japanese technology companies are losing confidence in existing approaches to innovation and are searching for new concepts, said Hans Gunter Danielmeyer, senior vice president of Siemens, when he addressed the European Industrial Research Management Association last year, "We have a lot of company restructuring but we do not yet know for sure what the next model of innovation will be." he said.

The discontent with traditions approaches largely stems from the frequent failure of companies to reap the henefits from innovative ideas. The travails of Apple Computer, which is widely credited with establishing a technological lead on

After years of cost cutting, companies are attempting to foster a culture of creativity to stimulate growth, writes Vanessa Houlder

Innovation under the spotlight

its rivals, is one of many examples where the best technical solution has apparently not prevailed in the market. The UK's corporate history is scattered with innovative companies that failed to capitalise on their inventions - most notably EMI's ill-tated invention of scanner technology.

A recently published OECD study on Innovation and Competitive Advantage is one of several academic studies which have failed to find a positive link between innovation and corporate performance. But why is this?

Innovation is costly, uncertain, hard to manage and vulnerable to exploitation by competitors, suppliers and customers, according to John Kay, professor of economics at London Business School, in his book Foundations of Corporate Suc-'A common business mistake is to believe that innovation can compensate for competitive disad-

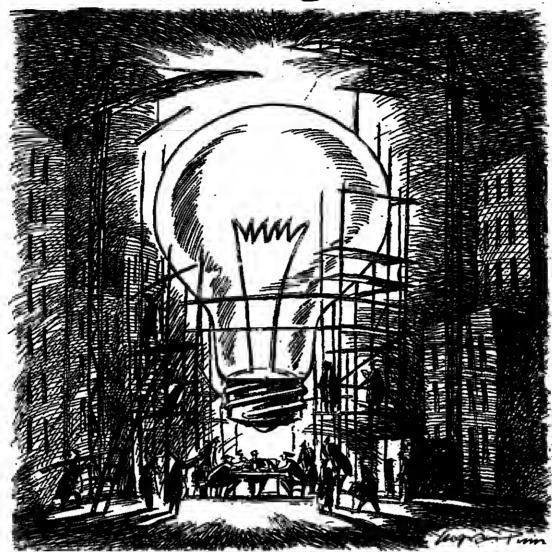
vantages in other areas," he says. A still common misconception is to think of innovation as a purely technical issue. Akio Morita, the founder of Sony, has famously dismissed descriptions of the Walkman as an innovative marvel. "Frankly, it did not contain any hreakthrough technology. Its success was huilt on product planning and marketing." he says.

But the belief in an "ivory tower" approach to innovation persists, according to the Centre for Exploitation of Science and Technology, a London-based organisation jointly funded by industry and govern-

The linear model of innovation where R&D generates technology which flows downstream into profitable new products and pro-cesses...is hard to dislodge from much of the thinking behind, and gement of, public and private R&D," it says in its recent report on Bridging the Innovation Gap.
"The preoccupation with R&D

rather than the totality of innovation management remains a serious barrier to progress with competitiveness," it argues. An important remedy, it suggests, is organisational re-design, involving the break-down of barriers between functional specialisms and operating divisions

Organisational issues are at the heart of new thinking about the management of innovation. "The organisational structures and values which concentrate on the productivity of technical innovation in isolation can actually harm the sultant and former industrial director of the national Economic Development Office. "Only if R&D staff spend time with their customers will they really understand the problems that need to be solved."



This recommendation is supported by many innovative companies, and not just those concerned with technology. Hasbro, the toy company, which draws a third of its turnover each year from new products, goes to great lengths to ensure that its product designers are in touch with children. It has set up a "fun lab" - a creche with two-way mirrors that accommodates 25 children each day - next to its R&D

department. "Innovative companies don't rely on third-party research for insight into their customers." said Simon Gardner, head of international marketing, at a conference on innovation organised by PDP International. a product company, last year.

But Gardner admits that capturing the value of the new ideas is harder than generating them. Part of the problem, he thinks, is a cultural one. "I find generally engineering people don't get on with marketing people," he says. It is a familiar complaint. In an

international survey conducted by Arthur D Little of product innovation processes, the most frequently mentioned problems related to how people in different parts of the organisation worked together. Marketing and R&D were considered to have a particularly-troubled rela-

The recognition of these problems has spurred companies into trying to break down the cultural divide between different parts of the organisation: Some draw inspiration from Japan, where companies often rotate staff through different teams. "In Japan, marketing people without an engineering background are not respected," says Kiyonori Sakakibara, associate professor of new product development at Lon-

The multi-functional team approach is one of the mechanisms that support the incremental innovation for which Japan is famous, according to Sakakibara. This strategy is characterised by "the more new products the better", rather than "the more innovative, the better", he says.

The merits of incremental innovation in securing market share and mading off new competitors have become widely recognised. "What matters in the world auto industry and what matters in every other dynamic industry is not the single successful product, but the continnons development of outstanding products," says Kim Clark of Hars school, in the Pro uct Development Challenge, a book published by the Harvard Business School Press.

Arthur D Little, in its recently published book, Product Jugger-

focus on modest innovations, rather than radically new concepts and designs. The increasing competition and growing complexity of technology in some industries may mean that it takes too long to solve the teething problems of a truly innova-

But there may also be dangers in focusing on incremental innovation at the expense of radical innova-

Frank Milton of consultants Coopers & Lybrand blames the record of British companies on innovation vation, rather than seeking a world-beating "quantum leap" forward. "The biggest breakthroughs tend to come from smaller companies that do not have such a vested interest in the status ouo." he says.

But can managers, particularly those of large companies, dictate the nature of innovation within their businesses? Arthur D Little argues that some companies, such as Canon, Du Pont, Philips and Sony, show that breakthroughs do flourish in companies that prepare for them. They require top manage-ment with a strong vision ebout for them. They require top m where and how to innovate, a strong technological culture and a very clear sense of the customer, it

But breakthroughs resulting from a formal top-down innovation pro-cess by full management support are rare. "Many breakthroughs actually happen as part of an implanned spontaneous process in the lower ranks of the company, without immediate top management intervention, or sometimes in spite

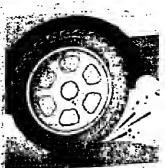
This kind of breakthrough does not happen by chance. It depends on the creation of a tradition of innovation and entrepreneurship.

3M, the diversified industrial company, is the classic example of this type of company. Its methods of encouraging innovation, such as its rule that technicians are free to devote 15 per cent of their time to any research project that they wish, have resulted in famous products such as the Post-it Note Pad, which, says ADL, "is the singular example of a slow but ultimately successful But the example of 3M Hustrates

the dilemma facing businesses that are trying to foster innovation while coping with increasingly com-petitive markets. The lifelong career, which is one of the central planks of 3M's innovation philosophy, was called into question last November when 3M announced a demerger, the closure of a business and 5,000 job losses. Explaining why it did not want any further demergers, it said: "You cannot ask for innovation from people while they're worried about their jobs."

This highlights one of the central concerns facing companies as they struggle to be more innovative, while paying close attention to costs. Exharting endings to be more innovative at a true when they are complaining of one work and job insecurity may be a waste

The risk facing companies is that they get locked into a cycle in which an inability to innovate damcuts that still further damage innovation. The search for better ways to combine creativity and efficiency to counter this cycle could become one of the central management nauts, suggests other reasons to . tasks of the next few years.



FAST TRACK

of the fastest growing financial information providers in today's market, is out to get attention with its latest newspaper advertisement for new recruits. The full-page ad features an executive with a briefcase skiing recklessly down a steep slope, and highlights words such as

entrepreneurial". The image reflects the way resident Mason Slaine thinks bout the company and himself. Although he has headed Thomson Financial Services for more than a year, Slaine says he bas never seen himself as e big commany employee. "I still think of myself as an entrepreneur. only now I'm doing it at

The entrepreneurial spirit ies naturally to Slaine. In the conies naturally to Staine. In the 1916 he established and sold Wall Street & Technology. Investment Dealers' Digest and Traders' Magazine. His last Venture was magazine publisher Band Communications, which he sold to the Thomson Corporation, the Toronto-based group that is TFS's parent. After making the deal he was invited to join the group as an highest Staine says his rice has been to hum his

surpassed competitor Bloomberg in market share, and is edging closer to Dow Jones' Telerate Service: estimated 1995 revenues, at \$600m (£390m), are up nearly 20 per cent from last year, and nearly 50 per cent

from 1994. TFS has been highly acquisitive over the last year. The group purchased seven companies in 1995 alone and controls the highly visible American Banker and IFR

To sustain his high growth strategy in a competitive market. Slaine treats TFS as a collection of small niche players giribe comidente. Boston headquarters, each operation is physically organised into separate areas to help create a small-company.

Growing profits are only part

pects trom each division. Each manager is expected to suiff out acquisition and start up opportunities. Once managers have identified a likely candidate, they appeal to Staine for funding. In most cases, the acquisitions are small. No 1995 purchase, for instance, exceeded \$20m. We look for nall players that we can grow into bigger players," he says.
When not doling out money for acquisitions and keeping an eye on the separate divisions' performance, Slaine spends his time recruiting employees. "Getting the best people to work here is the most important part of this business," says Slaine. He wants to attract types who,

like himself, would not

pormally see themselves as part

of a big company.
TFS beavily promotes its unconventional image. Its Boston headquarters are located in a neighbourhood favoured by artists. Few employees wear suits and most employees are under the age of 40. "We want young, aggressive people, ones who might be out starting their own business if they didn't join Thomson," says Slaine. "Here, they can get the best of both worlds: the chance to take risks and resp financial awards, but without the problems the entrepreneur has to face in raising capital."

Victoria Griffith

CFTE 0496

Rules for a happy executive marriage

eing married is not easy. It is not easy living in close proximity with someone, dealing with their little ways, deciding things together, compromising, managing

But neither can it be easy to coexist with another person et the top of a company. Working in close proximity, dealing with their little ways, deciding things together, compromising, managing the workforce. At least if you are married you presumably liked the person at the outset; which is not necessarily the case with chairman/chief execu-It is therefore surprising that

while nearly one in two marriages ends in divorce, most of these corporate pairings seem to last the distance. When Anthony Shearer and David Morgan of M&G parted company last week, the news that they had suffered a "clash of personalities" was treated as an amazing occurrence. Other boardroom

Cable and Wireless ex-execs Lord Young and James Ross - have met similar shocked response So are we to assume that most

company directors are grown-up people who put husiness first and are able to bury their personal differences? I find this hard to believe. A more probable explanation is that when problems occur they get hushed up, and if one or other party has to leave, it is said to be for "personal reasons". The key to the peaceful co-existence of senior executives may be to lay down clear rules stating who is responsible for what. Thus to have an executive chairman and a chief executive (as at C&W) or to have a chief operating officer and a managing director (as at M&G) is to ask for trouble.

There is a lesson here for marriages - if each party could agree on their roles and responsibilities at the beginning maybe there would be fewer problems later on.



Lucy Kellaway

There have been 400 British newspaper articles mentioning the word "stakeholder" in the last year, according to the FT's computer database. This is twice as many as in the preceding 12 months and at least seven times as many as five years ago. Given the amount of space allocated to this ugly word and given the hopes the Labour party is pinning on it, it would be nice if we could agree on what it means. My dictionary says a stakebolder is one who holds the stakes of a wager, which is not particu-larly helpful. Whatever it means, the word has an emotional charge: to some it suggests a fair society, to

others it heralds the terrifying return of powerful trade unions. For me it is neither good nor bad, and refers to a particular corporate model in which companies recognise the interests of all their "stakeholders": employees, shareholders, customers and suppliers. There is nothing revolutionary about this, companies have always known that they have interests to balance. The rub comes when the demands of different groups are in conflict, but the concept of the stakeholder has

nothing to say about who should take priority. Until further light is cast on the matter I am going to continue to

think of a stake primarily as the thing in my garden that keeps my apple trees straight.

I have just been reading about a comprehensive new study into what the young people of today think. earch International has combed the whole world talking to 20-some-things and has reached some startling conclusions. Young people are individuals! They all think differently! They do not like having their intelligence insulted!

Before Research International decides to follow the success of this report (which it is selling for £800) with a similar one into what middle-sged or old people think, let me pre-empt them. Middle-sged people, and old people, are all different too!

A nice man phoned np last week inviting me to spend the weekend Cannes. He explained his comparry was holding a meeting; of its managers there, and he wondered if I would come along to talk to their wives. I said no, but I should have gone - if only to witness this odd new trend in his 'n' hers confer-

Companies seem to be realising that if they want to lure their execntives away for a bit of extra-curricular brainstorming they need to offer an incentive. Travel is no attraction to executives who spend half their lives on aeroplanes, and who hardly ever see their families. So companies have hit on the brilliant solution that wives (for nearly always they are wives) should come

This strikes me as an expensive option, unless of course companies are trying to make amends to the wives for the constant absence of their trusbands. In that case putting them on an aircraft and cooping them all up together in a foreign hotel to listen to a journalist talking about business trends would not seem the best way of going about it.



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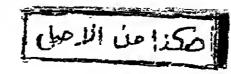
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BUSINESS EDUCATION

Taxing tales

Students paying for their own full-time MBA course could soon be able to claim their fees against tax if draft leglsietion from the UK's Inland Revenue is adopted. Bot students on part-time or distance learning courses
- some 80 per cent of MBA
students in the UK - would be excluded, as would students whose courses lasted for longer than a year.

Business schools are now lobbying for all MBA students to get the tax relief. "We've been campaigning for years and years to get tax relief for self-financing students. Employers who pay course fees get tax relief so it seems unfair that students don't." says Deborah Harry, financial controller at Cranfold School of ler at Cranfield School of Management, and a repre-sentative of the Business Schools' Finance Forum.

The forum has written to hotb the Inland Revenue and Gillian Shephard, education and employment secretary, to try to have the tax relief extended The new rules will come into effect in May.

Della Bradshaw

Della Bradshaw looks at the kinds of education specifically designed for chief executives

Back to school for top dogs

reached the top of the corporation they used to be able to rest on their laurels. But in these days of cross-border mergers, technology implementation and the emphasis on issues of corporate governance, many European directors now find they have to take decieions for which their early training and qualifications have left them ill prepared. The result has been a bur-

geoning demand for business school courses specifically designed for managing direc-tors and chief executive officers. IMD, in Lausanne, which specialises in executive education courses, reports that 1995 was its best year for such courses. In the UK, the Institute of Directors saw a 30 per cent increase in bookings at its Centre for Director Development. Insead, in Fontainebleau has three courses simed specifically at this top league of husiness people; five years

There is a realisation that the world is changing so rapidly that executives need to retrain several times during their career," says consultant Philip Sadler, formerly chief executive of Ashridge Management College. "Leadership skills are more important than management skills and execu-tives have to learn the differ-

ence between managing and

As a result many courses have the word leadership in the title - Insead's Leadership in Organisation, for example, which at three weeks is unusually long for a top executive course. Arnond De Meyer, associate dean of executive education at Insead, says it is designed for directors to "find their own management style". Top managers, he says, are very alone. "They are very good managers hut they have no one to bounce ideas off." Unlike traditional executive

education, these top tler

book and the case study and pitch the executives head to head. Academics channel the discussion. To ensure the group will work together, execntives on Insead's five-day Avira programme, for example, are carefully interviewed by course organiser Henri-Claude de Bettignies before they are

social get-togethers are just not enough any more."
Nevertheless, executive briefings from a range of consul-

even accepted on the pro De Meyer helieves such courses have replaced the tra-ditional conference circuit. The much more informal or

tants are still a popular option. CSC Index's Senior Management Interchanges programme, for example, is a meeting based course intended to expose 25 to 40 managers at a time to the latest theories from academics. business people and assorted gurus. Each "interchange" comprises three half-day ses-



Participating companiss sponsor the 10 events a year to tune of £12,000 and can send two delegates to each one. One such sponsoring company is the London and Manchester Group, the financial services company. Group chief execu-tive Tom Pyne believes the £12,000 was money well spent.

With his company undergoing a rapid programme of change, Pyne wanted to use

ment training and wanted his key executives to coin a "common vocabulary". "I wanted each of the execu-

tive team to be exposed to international speakers of the calibre you'd get at a top husi-ness school," he explains. Sadler believes such meeting-based courses can be effective, provided, as he puts it,

they are not simply "top man-

agers brought together just to agree with each other".

NEWS FROM

Management training forum gets new boss

Derek Wanless, the 48-year-old group chief executive of the NatWest Group, has succeeded Sir Bob Reid as chairman of the National Forum for Management Education and

The NFMED was set up in 1988 to counteract the low level of investment in nanagement training by UK companies and is made up of representatives from industry, academe and government. NFMED: UK, (0)171 872 9000.

Courses get a scientific visit

In an attempt to increase the knowledge of science and technology in future UK business leaders, the Loudon-based Institute of Physics is to appoint e visiting Industrial Fellow to lecture on the subject to students at Warwick

The fellow will spend two to three weeks a year ecturing, especially to MBA

The first fellowship is funded by the institute, but if the scheme is successful

external funding will be sought to extend the scheme Institute of Physics: UK. (0)171 235 6111

Teachers in union with workforce

The Cranfleid School of Management will tomorrow inaugurate the school's Centre for Strategic Trade

Union Management.
The formation of the centre follows research in Britain and elsewhere in Europe recognising that trade mions need strategy. financial management and marketing skills similar to commercial companies. Cranfield: UK, (0)1234 751122.

The continuing rise of the entrepreneur

Courses in entrepreneurship are all the rage according to the latest statistics from the J L Kellogg Graduate School of Management at

Northwestern University. Since antumn 1994 there has been an 86 per cent increase in students taking courses in the at the school. Kellogg: US, 708

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An engineer of dreams who worked in secret

secret, because as an engineer he was a servant of architecture. Sir Ove Arup was not, as you might imagine from his name, a leading character in The Lord of the Rings, but he toiled with troglodytic invisibility as one of the finest engineers that ever lived.

At the Architectural Association in London the centenary of his hirth is being celebrated. It does not seem possible that he died in 1989, still working as one of the wisest forces in the architectural

The truth about modern architecture is that it is as nothing witbout the skill of engineers. Sir Ove Arup and his company made almost all the best known contemporary buildings work. As the centenary exhibition at the AA sbows, he was one of the great problem solvers of our times. He was both a highly creative engineer and a

He had studied philosophy as a young man, a study which gave him that special kind of speculative mind that saw problems as routes to solutions.

He was undaunted by the immense range of buildings that his intellectual and practical activity supported, from the Sydney Opera House to the Lloyd's Building. From his archives we see this man of calm common sense exercising his talents to solve some of the problems of the Sec-

t is almost as though he worked in ond World War - temporary housing and a series of concrete vaults that give the bomb shelters were only two areas. But before the war he started a long association with the architects of the Modern Movement who were beginning to flourish in England in the 1930s.

The man who influenced that generation was Berthold Lubetkin, leader of the Tecton architecture company. Arup was to huild with Tecton not just the gorilla bouse at the London Zoo but also the magnificent penguin pool. This pool with its intersecting curved ramps of reinforced concrete was to become an icon of modern design in Britain.

There is no doubt of the importance of the engineer in this design which is a demonstration of the nature of concrete and the establishment of the structural truth that the slab was right for concrete cast on the site.

To Arup, Lubetkin was an artist possessed of a passion for perfection. It was this early experience of working alongside an artist/architect that equipped Arup to work with an entire generation of highly talented architectural prima donnas. In 1951, a firm known as The Architects'

building at Brecon in Wales. This was the Brynmawr Rubber Factory where the engineer had a direct influence upon the design of the building. That huge factory covers the space with

Co-partnership completed an amazing

interior the sensation of a cathedral of concrete. Arup felt "that the best architecture in reinforced concrete is generally to be found among those big engineering structures of today rather than an ordi-nary building planned by an architect". I am sure he was right and it was his

made him snch a sensitive engineer indeed it made him an artist among engi-He was to work at the Festival of Britain and on the huge aircraft hangars at Dux-ford. That strange pioneering school, the Hunstanton Secondary Modern School in Norfolk by Alison and Peter Smithson,

sense of what was appropriate that

and the Mayfield School in Putney with its neighbouring Alton Estate at Roehampton, would not have stood the test of time so well without the skills of Arup. But he was to work on many less utilitarian The Sydney Opera House was the supreme test. The architect. Jorn Utzon. had brilliant ideas and highly original

he was rescued by Arup.
In Coventry Cathedral, Arup invented the brilliant roof of the nave which is like the structure of the eye of an insect.

Perhaps the simplest, but one of the most successful of Arup's designs, is the footbridge in Durham - the last project



The intersecting ramps of curved concrete at London Zoo's penguin pool - an icon of modern design in Britain

that Sir Ove himself designed in every ers both enjoy the support of the Arup detail. But his company, Arup, was

to go on and on and convincingly encourage the most avant garde and adventurous

company. Sir Michael Hopkins too, with his experiments in Teflon and polycarbonate, relies heavily upon the work of Arun.

The character of the man shows in all Sir Norman Foster and Sir Richard Rog- his works. He was a clear thinker with

the Broadcasting Act list or encom-

pass subscription television will be

an outcry from sport and attempts by governing bodies to he de-listed."

Under the present legislation a

subscription television station such

as Sky Sport would be able to bid for a "listed" event but a pay-per-

view channel would not. Britain

has not got such an operation yet.

sports avent of the year.

immense integrity and modesty. There is

Colin Amery

ne subject has dominated the sports letters pages of Britain's serious newspapers since the beginning of 1996. Not the woeful performance of the English crickat team in South Africa. Not even the identity of the next coach to our national football team. The burning issue has been sport on television: who broadcasts

it and who pays for it. One person in particular would be perfect for the role of Antichrist as far as Angry of Andover and Disgusted of Doncaster are concerned, if they did but know his name. David Elstein is the man Rupert Murdoch sends in when he wants to secure yet another sports series or tournament for his satellite station British Sky Broadcast-

Whether it is premiership foot-ball, overseas test cricket or international golf, it is now common knowledge that the sports-fan viewer had better take out a Sky subscription if they want to see the best. Having had sport broadcast free (TTV) or within the overall licence fee (BBC) for a generation or more, there is now a viewer backlash that is deeply resentful of what it sees as the Murdoch millions gobbling up and ring-fencing the best of sport to create a hugelyprofitable specialist sports channel. Last week's House of Lords

debate on the Broadcasting Bill had a distinct sub-text of whether sport needs saving from Murdoch. Yet far from being defensive Elstein has decided to go on the offensive, laying into the politicians who sniff at popularity and the BBC which he claims, wants to have sport on the

"Politicians think this is a freelunch issue, a vote-winner where they say we will give the public what they want which is free access to these events," argues Elstein. "What they don't say is that we will thereby impoverish sport.

"Sport is expected to subsidise the BBC, which has a guaranteed income of £1.7bn per year. Television has lots of money available if it chooses to spend it. The BBC is very proud of the fact that it spends less per hour on sport than almost any other programme cate-



Keith Wheatley

gory. Only education is less per hour. The BBC is affluent and makes its own choices." One could deduce, correctly, that

Elstein is contemptuous of the way

the Corporation has misread the priorities of its viewers and failed to open its cheque book to purchase what the public wants to watch.

The sudden and dramatic loss of

Mr Murdoch's devil in disguise

Grand Prix motor racing to the ITV commercial channel is a case in point, Jonathan Martin, the BBC's head of sport, has been quoted as saying the news was a bombshell and its arrival among the worst 10 minutes of his life. Elstein says that Sky was not specifically inter-ested in F1 but unable to believe that the BBC had played its hand so ineptly: "The Beeb were very slow off the mark. If they hadn't spotted that their contract was running out, more fool them."

Yet for all his lambasting of the BBC, Elstein is very far from being some kind of punk broadcaster, the lad from tabloid telly. He trained at the BBC and was a successful inde pendent producer before becoming a programmer at London Weekend Television in its cultural and political heyday. More than one com-mentator has tipped Elstein as a possible director general at the Cor-poration, now that his old boss Sir Christopher Bland has become

chatrman. He argues that if the politicians decide in favour of extending the list of scheduled sports events that must be made available to terrestrial broadcasters, the sports bodies themselves will fight back. Having had a taste of the open market, they are unlikely to want to return to the days of a single bidder and tiny rights fees.

'The notion that Westminster can protect sport from bullies with astellite dishes is bogus," insists Elstein. "Until Sky came along the Test and County Cricket Board had one customer who dictated the terms of the deal. The cricket bodies had to accept whatever they were given. Sky comes along and

"Sky still don't have any live

might be a movie or a concert but if the negotiations go well it will be the Tyson fight. The reason is that there's a market," he says. it simply will not be available live

■ TOMORROW

will not sell the rights for live TV. tarrestrial or subscription," explained Elstein. "Billing is all done by electronic authorisation, done over the air per event, built into the smart card already. It's not demestic Tests. The TCCB is delighted. It's now got bargaining as sophisticated as we'll have in power and a real income to spend digital but we have a working adequate model on grass roots cricket. The natural ontcome of any attempt to extend

The US has had pay-per-view for years but in Britain, with its tradition of free-to-air broadcasting, it has been regarded nervously, especially in the current legislative climate: Elstein is characteristically unrepentant and bullish.

"In the final analysis we'll do what's in the interest of our consumers and our business." ba says. As it happens the Saturday of the Bruno-Tyson fight is the week-end before the Broadcasting Bill goes to the Commons. Our view is to take these things head-on."

Elstein says we will have one within weeks and probably for tha Technically we're there. We'll "We need to get people to under-stand that the Tyson fight as PPV is a bonus not a loss. We're bringhave a PPV event in March, hopefully the Bruno v Tyson fight. It ing PPV out of the cinema into the home. Instead of X quid per head to go to the Odeon on a wet night at 4am you pay once to see it at home with family and friends." on TV any other way. Don King

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Merger and acquisitions are back on the
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LONDON

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WEDNESDAY JANUARY 24 COMPANY MEETINGS:

Granada, Carpenters Hall, Prog Avenue, E.C., 11.00

COARD MEETINGS:

Prospect inde interiors: Dunedia Japan inv Tst Eumoor Oual inv Tst Marie Business

Exmoor Dual Inv Tst, Chamber of Shipping, 12, Carthusian Street, E.C.,

BZW Cv Inv Tst 1.5p Bankers Tst New York \$1.0 Britannia Bidg Scty Sb FRN 2005 £18643.0 British Airports Fin Gtd FRN 1996 Y46639.0 CPC \$0.38 Cleveland Tst 2.45p Court Cavendish 1.78p

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FRIDAY . JANUARY 26 Airsprung Furniture 1.7p Allen 2.5p Asset Mingmt Inv 0.593p Borthwicks 0.5p Bristol Evening Post 5p Bristol & West Bldg Scty FRIN 1996 £177.53 Carr's Milling 6.5p Channel Islands Comms 1.250

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Italy (Rep of) Global FRN Jul 1999 \$15.33 Do Global FRN Jul 1999 Y1320.0

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Kalamazoo 1.1p Lloyds Bank Ser A Var Rate Sb Nts 1998 £176.75 London Elec 111.5p :London Insurance Market Inv Tst 1.1p London Merchant Sec 0.8p

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MEPC, 104 New Orderd Street, Centre
Point, W.C., 12.00
BOARD MEETINGS:

Bi GT Jopen law Tat

TOMOFROW Y MEETINGS: Smaller Co's Inv Tst, Durecks

E THURSDAY JANUARY 25

h inv Tst, 6, Albyn Place, Edinburgh, 11,00 Tate & Lyfe, Barbican Hali, Barbica Centre, E.C., 11,30 BOARD MEETINGS: Murray lot Tet Witan inv

E FRIDAY JANUARY 26 COMPANY MEETINGS: r (Frederick), Park Hall Hotel, Park 12.00 PLOARD MEETINGS

E SATURDAY JANUARY 27 NFC, Com Exchange, Bedford, 11.00 Company meetings are annual general mentings unless otherwise states

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LONDON.

The great Russian impresario Sergel Diaghilev (1872 - 1929) is tha focus of an exhibition opening at the Barbican Art Gallery on Thursday, It traces the development of his creative vision from St Petersburg to Paris, cultrimating in the founding of the Ballets Russes. On show will be work from the key. exhibitions of Russian art organised by Diagnilev. together with costume and stage designs by Bakst, and documentary

photographs showing Nijinsky (left), Pavlova and others. Many of these

have never previously

been seen in the We

VIENNA

en 1918 and 1942, some of Austria's most gifted artists emigrated to the US. An exhibition opening on Friday at the Osterreichische Galerie im Oberen Belvedere focuses on 11 representatives of this "lost generation". It STOWS how exile influenced their work, and how they in turn influenced American art. institutions. The exhibition can be seen in the US in And, at the Mary and Leigh Block Gallery of Northwestern University.



HAMBURG

LM.W. Turner's sketching tours in Europe resulted to a rich datalogue of material field; which visitors to London's Tate Gallery have been able to enjoy in recent years. Now Hamburg's Kuristhalle presents a selection of decimings, sketchbooks and watercolous, focusing on furner's journeys up the Filme, Mosel and Elbe. The exhibition opens on Friday.

PARIS:

As part of its altempt to break down Musicue presents a weekend of Egyptian music starting on Friday, It takes the form of a musical icent through the different regions of Egypt, with sacred chart from m and Cornic tracelles popular music from Port Said, and ictic songs from the Nile va

HOUSTON marks the catheriery of the birth of American composer Vigil Thomson with a new production of "Four Saints in Three Acts" [1935], a work now regarded at a procured of minimation. Staped by Bob Wison (right) and conducted by Dennis Russed Denies, the production opens at the Wortham Center on Friday, and is due to visit New York's Lincoln Center and the Edinburgh



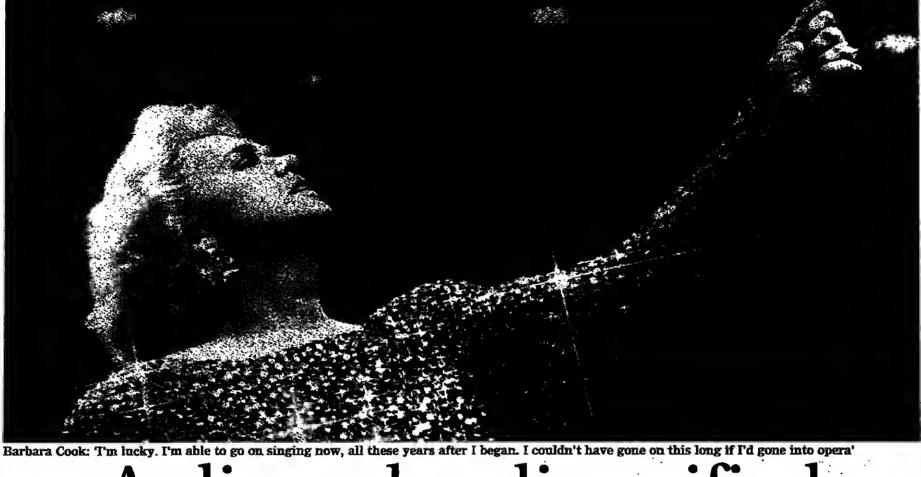
orty years after it was written, the role of Cunegonde in Leonard Bern-stein's musical Candide is still an awesome role for any soprano. It goes up to top C, and features numerous staccati and runs; and vet it was created by a young singer who has always stayed outside opera, in the domain of musicals and popular song. Her name is Barbara Cook. She has long been among the world's most revered singers, and several of the world's leading operatic vocalists are among her admirers.

Last week, she returned to London for a three-week season of concerts at the Cafe Royal. A few months ago, I was rash enough in these pages to refer to her as "the greatest singer in the world"; it is not a judgment I have yet had cause to repent, It is not that Cook has a superlative voice, but that she makes more music from a vocal phrase, and develops more architecture from an entire song, than any other singer I know of today. Certainly I know of no singer of popular music who better deserves the attention of classical musicians. She has little self-importance and a great deal of good humour, and she talks with gratitude and surprise about her career.

Born in 1927, she was brought up in Atlanta, Georgia. "Nobody in my family loved music in particular, but I loved listening to opera. No matter what I was doing on Saturdays, I always made sure my mother or someone came in to fetch me indoors in time to listen to the Texaco matinee broadcasts from the Met. I'd listen, all by myself, in a room with the radio." But, she says, she never wanted to become an opera singer, "When I started to train seriously as a singer in about 1953, my teacher liked to make all his pupils tackle some opera, especially Mozart. But, despite my love of opera. I resisted that. Finally I tried out one of Donna Anna's arias from Don Giovanni" - she stogs the opening line of "Non-mi-dir" ("it was the first thing that appealed to me") - "and then I went on to some

When she auditioned for Bernstein and he requested something classical, she sang him Madam But-terfly's entrance music. "I only knew the version that ied up to high D - I didn't know that most sopranos take the lower option that Puccini offered! - and so I didn't understand why Bernstein said to me 'Miss Cook, you are a very brave singer!' But, to me, high notes and so forth weren't a part of my professional equipment before Candide. I would call that kind of singing 'acting like an opera singer': something to do for fun. You know, I'd hold a high E while running downstairs: that kind of thing. It wasn't seri-

She still speaks of the terror that Cunegonde's famous number "Glit-ter and be gay" inspired in her. "I'd never sung higher than the G just above the stave in public! But Bernstein helped me: he made me feel I could do anything." She also recalls how Bernstein would incorporate ideas of hers. "When Cunegonde has sung the words 'Then I droop



diva who diversified

Alastair Macaulay talks to one of the world's most revered singers, Barbara Cook

my wings', there's a high C in the score. Well, after the C, I just had to take a portamento downward to lead into the next phrase; it felt to me only right, with those words. Bernstein loved that, and he put it straight into the score

An enchanting 1995 CD commemorates her Broadway years (1951-72). Before Candide, she had sung to such new musicals as Flahooley (which lasted only six weeks) and (which lasted only six we Plain and Fancy (which ran for 461 performances). After Candide (whose original production closed after only 73 performances), she triumphed in The Music Man (1957), which lasted 1.375 performances and won her a Tony; and she sang in the original She Loves Mc (1963), several of whose songs - "Will He Like Me?" "Dear Friend" "Ice Cream" - she has gone on singing in concert and which have become an important part of her legend. From 1965, she also began to act in

straight plays.
In 1974, she started a second career, singing concerts, no longer playing roles. A January 1975 concert at Carnegie Hall proved a smash hit, launching the career she has enjoyed ever since. Re-listening to her Broadway album reveals that no change of gear was needed for

her change of career. She was, and is, a classical singer, in the larger sense of that adjective - exemplary in her entry into notes, in her sculpting of musical phrases, in her pointing of words. Today she is one of the few singers of popular music who began their careers without the help of microphones; and she still always sings one number - the first encore - without amplification.

"I had had great teachers. in Condide. Bernsteln made me really think about rhythm. And he loved my way of speaking some of the words. At first, Tony Guthrie, who was directing, had made us all work on diction, you know; to make sure we Americans didn't pronounce Ts like Ds. When, a week before the premiere, we beard Bernstein was going to talk to us about pronunciation. I thought 'Oh no, he wants it more precise'. But no. He wanted the opposite; he wanted it to sound as much like natural speech as possible."

Today, when she conducts masterclasses, that is what concerns her most. "I recently taught one in Los Angeles at USC [University of Southern Californial. It went very well, but there was one singer, operatically trained, who did 'Eef everr I wooold leave yooo' from Camelot. He couldn't change this artificial very, very lyrical. With Garland, way of delivering the vowels. 'Come close, sit beside me, and sing it quietly to me, I said. 'Just say the words.' But he couldn't."

To sing popular music well, she maintains, you need to sing in the vernacular. "And you don't have to be sloppy about it. I'm still working on this, especially in the last four years, when I've been handling more bluesy numbers.

Her own voice teacher taught her to keep her mouth in singing as close as possible to the way she used it in speech. "Don't open it up exaggeratedly - that helps to distort the vowels and to hiur the tone. Look at Pavarotti; he hardly ever really opens his mouth wide.

Cook knows that she belonged to what has been called the golden age of Broadway ("I wish I'd known that then - I'd have had more fun") and she has always paid tribute to the two singers who, in her early years, influenced her most: Mabel Mercer and Judy Garland. "With Mabel, it was her take on a song, it wasn't the sound of her voice. And her use of words; she would make a phrase more personal than you had known it could be. She would reveal the human comedy, the human irony, in a song. She could also he

well, I couldn't reproduce the trum-pety sound of her voice in its full splendour. But what I loved was to watch, night after night, the way sha could build a song in a big

uilding a aong has become one of Cook's most overwhelming virtues. She builds one litsong "Wait till you see him", for example, into a towering statement of faith and anticipation. Another song that Cook huilds to exceptional effect is "Dancing in the Dark", the great ballad by Arthur Schwartz and Howard Dietz. "I was at a Lincoln Center gala once, when one singer gave a beautiful delivery of that song, and I turned to Arthur Schwartz, whom I knew quite well," (she had sung in a Schwartz-Dietz musical in 1961) "and I said to him 'God, Arthur, it must be wonderful to have written a song so glorious. that has been sung so often.' 'Yes, he said, But nobody really sings the words beautifully. It's about life and death.' So I went back to the words - 'dancing in the dark, till the tune ends, we're dancing in the dark, and it soon ends, we're waltzing in the wonder of why we're here...' Wally Harper made an arrangement for me that brought out the darker side of the song. I sang it for the first time at that Carnegie Hall debut in 1975. Both Howard (who was at that concert) and Arthur told me that mine was their favourite rendition.

She is quick to attribute much of this to her musical director. Wally Harper, who has written certain of tla Rodgers-and-Hart her most winning numbers, such as "It's Better with a Band". "He thinks orchestrally. Not planistically, though the piano is what he plays. We try out plenty of songs, you know, and if he can't find a rhythmic underpinning to a song, we don't du it. It's not enough that it's a pretty song."

She is, she says, very lucky. "I'm able to go on singing now, all these years after I began. I couldn't have gone on this long if I'd gone into opera." Though she is speaking lightly, a certain earnestness has entered her voice. "And I don't mean to stop. They'll have to carry me out in a crate, you see. Because I just love singing."

Barbara Cook is singing at the Cafe Royal's Green Room until February

Well-tuned 'Magic Flute'

evived for the sixth time (by Henry Little), Nick Hytner's 1988 production of Mozart's Magic Flate for the ENO still looks good and serves the opera well. in sentimental moments, I find myself thinking that if everybody

place. Just now, the Coliseum's Flute would do nicely - and there is a discount matinée on February 17. Hytner's original Prince Tamino, Thomas Randle, will reappear for that one performance. It was he or somebody very like him who mod-elled for the famous ENO poster on the Tube, a fine black torso in strennous contantion with a python. The new Tamino, young Ian Bostridge, very tall and extraordinarily narrow - imagine Tenniel's fish-footman topped with a young, beakily sensitive face - keeps his

hauled their kids off to Die Zauber-

flote, the world would be a better

shirt on Bostridge has made a singular, piercing impression in light-tenor cameo roles, in concert versions of Berlioz and Wagner operas, but how would he fare as a Mozart lead? Well: awkward and uncomfortable when speaking, he broke gratefully into song with all the marks of a

unique talent.
Suddenly his acting acquired conviction, and his affecting, quite individual timbre was projected into the hall with unexpected power. His phrasing and musical emphases were freshly vital and original, his words pellucid; he set his music alight. He is surely bound for a notable career

The young baritone John Gra-bam-Hall, another long drink of water, made a crisp, funny Monostatos. Peter Snipp's Papageno was thoroughly engaging, with a nice line in Essex-speak and a delightful Papagena in Sally Harrison.

The only weakness in John Connell's strong Sarastro was a tendency to shorten his dottednotes: Andrew Slater made a sterling Speaker.

Penelope Walmsley-Clark, who has moved from Queen of Night to First Lady, led a first-class ladies' trio. In her old part, Nicola Sharkey was effortful in her first aria, but managed the second - the great "Hölle Rache" showpiece - with aplomb, even while dragging Pamina bodily across the stage. Our applause was sincere, though the star-blazing Queen is not quite her role. The lovely new Pamina is Janice Watson, one of the very best Paminas that the ENO has fielded. There is an admirable new conductor, too, the Viennese Alexander Sander, who keeps the score hright and is attentive to his singers. Altogether, this is a warmly recommendable evening.

David Murray

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INTERNATIONAL

■ AMSTERDAM

CONCERT Concertgebouw Tel: 31-20-5730573 Nederlands Kamerkoor: with conductor/pianist Reinbert de Leeuw and baritone Jelle Draijer perform works by Scelsi, Stravinsky and Liszt: 8.15pm; Jan 24 EXHIBITION Amsterdams Historisch Museum Tel: 31-20-5231822 Les Belles Hollandaise exhibition of tashion photographs made by the Dutch photographe

Hans Dukkers in the period 1950 -

1970; from Jan 26 to Mar 7

■ BERLIN

OPERA & OPERETTA Deutsche Oper Berlin Tel: 49-30-3438401 Zar und Zimmermann: by Lortzing. Conducted by Hans Hillsdorf and performed by the Deutsche Oper Berlin. Soloists include Peter Edelmann, Peter Maus, Manfred Röhrl and Gudrun Sieber, 7.30pm; Jan 23, 26

Komische Oper Tel: 49-30-202600 Die Fledermaus: by J. Strauss. Conducted by Yakov Kreizberg and performed by the Komische Oper,

BONN EXHIBITION

Kunstmuseum Bonn Tel: 49-228-776121 Heinrich Nauen 1880-1940: exhibition devoted to the German expressionist Heinrich Nauen, with special emphasis on the period 1906-1925. The display of some 40 paintings and 80 works on paper consists mainly of landscapes, portraits and still lifes; from Jan 26

■ FRANKFURT

CONCERT Jahrhunderthalle Hoechst Tel: 49-69-3601240 François-René Duchâble: the pianist performs works by Chopin and Liszt; 8pm; Jan 24

■ HAMBURG

OPERA & OPERETTA Hamburgische Staatsope Tel: 49-40-351721

 II Trovatore: by Verdi. Conducted by Marcello Viotti and performed by the Hamburg Oper. Soloists include Olga Romanko, Nina Terentjewa, Juan Pons and Kristian Johannsson; 7.30pm; Jan 23, 26

■ HELSINKI

DANCE Opera House Tel: 358-0-403021 Finnish National Ballet: perform three choreographies to music by Tchaikovsky: "Les Noces" by Jarome Robbins, "Petrushka" by Jorma Uotinan and "Le Sacre du Printemps* by Vaslav Nijinsky; 7pm; Jan 24, 27, 29

■ LONDON

CONCERT Berbican Hall Tel: 44-171-6388891 London Symphony Orchestra: with conductor Sir Colin Davis and pianist Mitsuko Uchida perform Mozart's "Piano Concerto No.18" and Bruckner's "Symphony No.6"; 7.30pm; Jan 24 Queen Elizabeth Hall

Tel: 44-171-9604242 Emerson String Quartet: perform string quartets by Beethoven; 7.45pm; Jan 24 Royal Festival Hall

Tel: 44-171-9604242 The Philharmonia Orchestra: with conductor Christoph von Dohnanyi and planist Emanuel Ax perform Schoenberg'a "Chamber Symphony No.1", Mozart's "Piano Concerto in A" and Beethoven's "Symphonie No.7"; 7.30pm; Jan 24

St John's, Smith Square Tel: 44-171-2221061 Choir and Orchestra of St John's, Smith Square: with conductor John Lubbock and pianist John Lill perform works by Beethoven, Montague and R. Schumann; 7.30pm; Jan 24

MUNICH

OPERA & OPERETTA Nationaltheater Tei: 49-89-21851920 La Damnation de Faust by

and performed by the Bayerische Staatsoper. Soloists include Anne Salvan, Ulrike Schneider, Vinson Cole. Alan Titus and Harry

■ NEW YORK CONCERT

Dworchak; 8pm; Jan 26

Avery Fisher Hall Tel: 1-212-875-5030 New York Philharmonic: with conductor Kurt Masur and pianist Elisabeth Leonskaja in an all-Tchaikovsky programme Including "Pizno Concerto No.3", "Fantasia for Pizno and Orchestra" and "Symphony No.53; 8pm; Jan

25, 26 (2pm) , 27 Carnegie Hall Tel: 1-212-247-7800 Saint Louis Symphony Orchestra: with conductor Leonard Slatten perform Haydn's "Symphony No.70", Baker's "Whispers and Echoes" and Rachmaninov's "Symphony No.2"; 8pm; Jan 25 DANCE

Joyce Theater Tel: 1-212-691-9740 The Washington Ballet: In a programme including the choreographies "Fives" by Choo-San Goh, "Danses Concertantes" by Nils Christe, "Evening" by Graham Lustig, and "Brother, Brother" by Ntsikelelo Cekwana; 8pm; Jan 23, 24, 25, 26, 27, 28 (2pm & 7.30pm)

OTTAWA

CONCERT National Arts Centre Tel: 1-613-996-5051 National Arts Centre Orchestra: with conductor Hermann Michael and violinist Jaime Laredo perform Berlioz. Conducted by Gard Albrecht works by Haydn, Barber, Delius and

Mendelssohn: 8pm; Jan 24, 25

PARIS CONCERT

Salle Playel Tel: 33-1 45 61 53 00 Orchestre Colonne and Choeur de l'Orchestre Colonne: with conductor Günther Neuhold, mezzo-soprano Elisabeth Graf and tenor William Kendali perform works by Purcell, Rossini and Beethovan; 8.30pm: Jan 23 OPERA & OPERETTA

L'Opéra de Paris Bastille Tel: 33-1 44 73 13 99 La Bohème: by Puccini. Conducted by Louis Langrée and performed by the Opéra National de Paris. Soloists include Roberto Aronica, LeRoy Villanueva, Carlos Feller and Cristina Gallardo-Domas: 7.30pm; Jan 23 THEATRE

Comédie Française, Salle Richelieu Tel: 33-1 40 15 00 15 Le Misanthrope: by Molière. Directed by Simon Eine. The cast Includes Alain Pralon, François Beaulieu and Dominique Constanza 8.30pm; Jan 23, 27 (2.30pm), 28

■ SAN FRANCISCO CONCERT Louise M. Davies Symphony Half

Tel: 1-415-864-6000 Isaac Stem and Robert McDonald: the violinist and pianist perform works by Beethoven, Bartók, Dvorák and Kreisler, 8pm; Jan 23

■ STRASBOURG

CONCERT Palais de la Musique et des

Congrès Tel: 33-88 37 67 67 Emani: by Verdi, Concert performance by the Opéra du Rhin and the Orchestre Symphonique de Mulhouse, conducted by Paolo Olmi. Soloists include Gegam Grigorian.

Ettore Kim, Roberto Scanduzzi and

■ STUTTGART

Maria Dragoni; 8pm; Jan 23

OPERA & OPERETTA Staatstheater Stuttgart Tel: 49-711-20320 Ii Ritomo d'Ulisse in Patria: by Monteverdi. Conducted by Alan Hacker and performed by the Oper Stuttgart; 7pm; Jan 23, 26

■ VIENNA

CONCERT Konzerthaus Tel: 43-1-7121211 Concentus Vocalis and The Bach Ensemble: with conductor Joshua Rifkin perform Biber's "Requiem in A major" and works by Leopold I, emperor of Austria. Soloists include sopranos Susanne Rydén and Mieke van der Sluise, alto Steven Rickards. tenor John Elwes, and basses Christian Hilz and Michael Schopper; 7.30pm: Jan 24

■ WASHINGTON

CONCERT Concert Hatt Tel: 1-202-467 4600 Simon Estes : accompanied by plantst Julius Tilghman. Thebass-baritone performs spirituals and works by Allitsen, Barber, Cooland, Youmans, Rodgers, Kem and Brodszky; 8.30pm; Jan 25

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Flat tax frenzy

Republicans are querying the fairness of multiple tax rates and seeking reforms to encourage savings and investment

Nothing better illustrates the extra dollar of earnings would be swallowed in taxes. Under difference in political culture between the US and UK than the debate over the flat tax. It is hard to imagine any British politician running for office on a pledge to impose the same rate of income tax on the entire electorate. Lord Lawson, the former chancellor, was roundly criticised in the late 1980s for daring to reduce the top rate of tax from 60 per cent to 40 per cent. He

would not have dreamed of proposing a flat rate. Yet in the US, opinion polls suggest strong public support for the flat tax. Nearly all the contenders for the Republican presidential nomination are promising some version of it. Mr Steve Forbes, the millionaire publisher, ignited the debate by pledging a single tax rate of 17 per cent on all incomes. Mr Phil Gramm, the Texas senator, is trying to outbid him with a flat tax of 16 per cent. Mr Bob Dole, the Senate majority leader and front-runner, has admittedly not yet fully endorsed the Another common misconidea. But he wants a "fairer. flatter and simpler" tax sys-

The flat tax got a further boost last week when a com-mission headed by Mr Jack Kemp, a leading Republican strategist, made a passionate appeal for root-and-branch reform of the federal tax system. The present code, he argued, should be scrapped "in its entirety" and replaced by a single, low rate of tax on all incomes. On the eve of the Rich pay more as top rate declines 21st century, he suggested, this was the only way to Share of tax "ensure the greatest possible 30% opportunity for all Americans to work, save, invest and

reach their potential". The term flat tax is unfortunate because many people wrongly assume it would involve an equal tax burden on rich and poor. What It actually does is impose the same marginal tax rate on everyone. The marginal rate is the rate that matters for economic incentives because it tells you how much of an

the Forbes plan, for example, everyone would be able to keep 83 per cent of any extra income: that compares with a figure of less than 60 per cent for top earners today. But the tax rate that matters from the point of view of unavoidable if the present

income distribution is the average tax rate - the ratio of your total tax bill to your total income. All the flat taxes under discussion include large personal exemptions to reduce the burdan on low-income families (on the Forbes proposal a family of four earning less than \$36,000 a year would pay no tax). Because of the exemption the average tax rates paid by middle income families would be lower than those paid by higher earners. A flat tax is thus "progressive" at the bottom of the income spectrum. At the top end it is in effect a proportional tax: someone earning \$2m would pay twice as much tax as someone earning \$1m.

ception - which Mr Robert Rubin, the US Treasury Secretary, tried to exploit last week - is that the wealthy would pay no tax on interest income and dividends. It is true that individuals would no longer pay tax on "unearned" income. But the flat tax on wages and salaries would be accompanied by a similar tax on businesses that would tax all returns on capital - such

Federal taxes paid

by too 1% as share

of total receipts

as dividends - at source. Indeed, the business flat tax would be designed to snare much corporate income that currently goes unreported. To the extent that savings would no longer be taxed twice as under conventional income tax regimes, the wealthy would benefit. But this is

bias against saving and capi-

formation is to be

Far from being a "nutty idea" the flat tax raises two fundamental questions of principle that need to be debated in all industrial countries. The first is treatment of savings. The Kemp commission considers the incentives currently facing a family in the 28 per cent tax bracket that earns an extra \$1,000. Of that \$1,000 they pay \$280 in federal taxes and keep \$720. If they spend the \$720 by taking the children to Disneyland, they incur no further tax lia-

bility. But if they decide to save the \$720 (on which they have already paid tax) they face a stream of future liabilities. The company in which they invest will pay corporate tax at 35 per cent; the family will pay a further 28 per cent tax on any dividends remitted and on any increase in the capital valua of their shares. If the investment is held until death they will be subject to estate taxes that can go as high as 55 per cent. Given such perverse

70%

-- 50%

4096

30%

-- 20%

Too tax rate

The flat tax would greatly

incentives is it any wonder that most Americans opt to consume nearly all their ілсоше?

The other fundamental question is whether the tax code should be a tool for social engineering. Should the government levy proportionately higher taxes on the wealthy than on middle and low income workers in order to achieve a "fairer" overall distribution of income? If economic output were manna from heaven and granted hy God to "society" as a whole, it would be quite unjust to distribute it unequally. It would be as wicked as mother giving one child a larger slice of cake than the others.

But in a market economy, income is generated by individuals. It reflects individual effort and talent. There is no obvious reason why the less talented and less industrious should have an automatic lien on the extra earnings of the more productive. And when they do - when extensive redistribution is regarded as a "right" - an economy's growth prospects are usually impaired. And those whose envy and resentment of the wealthy motivates the policy

of steeply rising tax rates are among the first to suffer. Such arguments were once well understood. In a 1909 editorial opposing income tax. The New York Times wrote: When men get into the habit of helping themselves to the property of others, they can-not easily be cured of it."

simplify the existing system. It would stimulate more work, more saving and faster growth. It would meet common sense standards of fairness. But its proponents are economical with the truth in one respect: they fail to acknowledge that a rate of under 20 per cent would be consistent with budget balance only if federal spending were cut even more aggressively than Mr Newt Gingrich has proposed. But it remains an attractive longer-term goal.

·LETTERS TO THE EDITOR·

Number One Southwark Bridge, London SE1 9HL

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Pushing the wrong way

From Mr Robert Solomon. Sir, Gerald Holtham'a letter (January 17) in response to that of John Crow (January 5) seems to argue that central bank independence leads governments to pursue irresponsible fiscal policies. hiding from the markets" behind the inflation-fighting reputation of the central bank if governments were that

expect them to push non-independent central banks toward harmful policies?

Washington DC, US

Gifts proposal widely backed

From Mr Brendan Donnelly

Sir. You report ("Euro-MPs reject greater openness". January 18) that British Conservatives "said taking gifts [from lobbyists] was acceptable as long as they were declared". This form of words is capable of misinterpretation In reality, the great majority

of Conservative MKPs simply supported the proposals on lobbying brought forward by the Socialist rapporteur, Mr Glyn Ford. These proposals would have obliged outsiders to declare any financial advantages they conferred on MEPs, such as invitations to conferences, secretarial assistance or lavish hospitality. It is not as clear as it might be from your report that these proposals enjoyed a wide measure of cross-party support from British MEPs.

Brendan Donnelly, MKP for Sussex South and Crawley, 72 High Street, Brighton, East Sussex BN2 1RP. UK

Japan should ponder nuclear future

for at least 50 years;
• earlier studies showing it

would take up to 90 years

accident-plagued Monju's

enough plutonium to fuel a

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in the next 30-35 years;

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institutional estimates) more

than 250 tonnes of plutonium

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new reactor core;

From Mr John Obranto. Sir, As Japan revisits its pintonium economy ("Japanreviews nuclear plans as hopes fade for 'dream' fuel", January 10), one would hope it has the wisdom to reflect on: • the combined loss of \$65bn from failed fast breeder reactor (FBR) efforts in the UK, Sweden, US and former USSR:

France, Germany, Canada, • a 1993 report by the US think tank Rand concluding irresponsible, wouldn't one FBRs could not be economical Eritrea deserving of western assistance

Robert Solomon. guest scholar. Brookings Institution, 1775 Massachusetts Avenue NW.

(January 18) is a timely reminder that here is one African country that is truly deserving of assistance. My family visited that country at the beginning of 1995 to celebrate a wedding. We were astounded at what

From Prof Peter D. Wickens.

Sir, Your survey on Eritres

we found. A country that during the war set up schoolrooms in the caves and is now running its schools on two shifts to accommodate the recognition that it is only through education that the

small projects. nation will prosper. Streets completely clear of beggars where a westerner can walk in

total safety. A people who at all levels said "we recognise it will be a struggle and we will need help, but we are not going in for spendthrift projects. Wa will encourage small husinesses and pull ourselves up by our bootstraps". Your description of their efforts to rebuild their rail link across the mountains from Asmara to Masawa is an indication that this philosophy is being extended to large as well as

The heart of the old port of Masawa is being rebuilt by local craftsmen in the traditional Moorish style while the capital, Asmara, untouched

by the war, retains its Italian art nouveau style. Both are potential delights for tourists. If ever there was an African nation that is doing what we in the west would call "all the right things", Eritrea is it. It is not begging for help but it needs it. The British government could well do worse than recognise this and act upon it.

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executive director,

John Otranto

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Peter D. Wickens; chairman. Organisation Development International, 10 Kingsclear Park, Surrey GU15 2LS. UK

Acceptable approach by UK chancellor

From Mr Simon Briscoe. Sir, I disagree with the widely held view - most recently expressed by Martin Wolf in his column "A gamble with stability" (January 16) that the chancellor of the exchequer took a gamble in resisting the advice of the Bank of England and not

raising rates in May last year. The problem is not one of gambling, rather, the Treasury and the Bank judge the economy's performance in different ways. The Bank's policy prescription is almost exclusively based on its two-year forecast of inflation. Accordingly, recent

developments in the economy get relatively little weight in their deliberations. They give more weight to econometric

modelling.
The Treasury, and particularly the chancellor, pay more attention to the latest data. They look at the trend as revealed, not by the last month's figure, but by the latest quarter annualised. All monetary policy decisions require an element of judgment, but the limited

results so far show that the chancellor's decision-making framework is more successful than the Bank's. When the economy is growing as

hesitantly and erratically as it is now, the chancellor's method is quite acceptable. It picks up sharp changes in the economy and avoids the risk of an adverse impact on centiment from inappropriate policy moves.

No one gets it right all of the time, but my experience suggests that giving less weight to econometric based forecasts might not be such a bad decision.

Simon Briscoe, UK economist, Nikko Europe, 55 Victoria Street London SWIH OBU, UK

Key to European prosperity

From Mr Nicholas Crasby, a wind to maintain low hallation and Sir, Edward Mortimer; sustainable growth to eminent, sane and pro-European, has nonetheless and trade liberalisation: to succumbed to the bogus proposition of "Either Emu or enlargement" ("The wrong priority", January 17). None of the aspiring entrants to the Union wants to join

Emu in 1999. None, on any plausible economic grounds, could join in 1999. Therefore, Emu raises no barriers to entry for the proposed new members. Meanwhile, Emu is essential

to the UK and its European allies to ensure a stable macroeconomic environment: underpin the single market unleash the dynamic effects of higher investment and savings; to deepen European capital markets; and to lower

exchange costs. Bither Emu or enlargement is a false antithesis. Both are essential to protect and further Europe's prosperity, peace and

unnecessary transaction and

Nicholas Crosby, Flat B, 15 Avonmore Road, London W14 SRP, UK

Real focus for tendering From Mr Mark:V. Bughes.

Sir. Your editorial "Boron's -: In: Elsewhere (such assin lessons" (January 10) makes a ... Thailand), independent power significant point about the importance of transparency and competitive tendering in attracting direct foreign investment. But you are wrong in focusing on rates of return. This is an outcome of a variety of factors, including cost efficiencies (in operating, in construction and in fuel supply arrangements). What is important is price and service quality. These are the real choice components on which competitive tendering should focus. This is a lesson already

"mbr learned, including in India: producer initiatives fully esponse the importance of competitive tendering to get best price and quality and satisfy the public the best deal was obtained. If the winning bidder (best price and quality mix) can also achieve a good rate of return on his equity investment, good luck to him

> Mark V. Hughes, partner, Price Waterhouse Corporate Finance, **World Utilities Group** No 1 London Bridge SE1, UK

Samuel Brittan

Back to basics on Emu



statement of the purely economic case against large currency areas of which the European Union's

planned single currency is the most topical example - was made by Peter Jay, the BBC economics editor, in an address last November.*

The Jay case is that any economic region, whether independent or part of a larger political unit, is bound from time to time to be uncompetitive. By this he means that it cannot pay its way without a reduction in wages. As most areas also soffer from wage rigidities, which make it difficult to reduce rates of pay, the result is likely to be unemployment, depopulation or a mixture of both

If however such a region has its own currency, which it can devalue as an act of policy, or allow to depreciate in the market, the need to cut wages goes away. Adjustments can take the form of a falling exchange rate, which allows workers to be priced back into jobs without having to cut nominal pay rates.

In contrast to most politicians who use the term, Jay is careful to explain that competitiveness is a relative concept and that not all countries can he uncompetitive. Moreover uncompetitiveness in this sense is not the only, and may not even be the main, cause of unemployment it can certainly not be the only cause when jobless worries are

recognised as having a quite competitive real exchange rate. Jay's inference is that a currency should cover the smallest feasible geographical area. For instance, Scotland should

England is a borderline case. The United States monetary area is in his view too large; the South suffered in its postcivil war construction efforts from having to use the Federal dollar. Others have made a similar point about the Italian south after the unification of the country.
It is worth stating the con-

have its own exchange rate

and independent monetary pol-icy, while the north-east of

trary view in equally funda-mental terms. This is that a region or country that has become uncompetitive has to adjust its relative prices (as Jay would agree). This means changing the prices of traded products relative to untraded ones, or of domestic real pay relative to pay abroad, or both. One might try to minimise these disagreeable changes by productivity leaps or investment in new products and processes to replace declining industries. But it is wishful thinking to suppose that these positive developments will always happen or can be relied upon. In most instances some mixture of adjustment mechanisms will be involved.

The "one money" school would go on to say that fiddling with numerical ratios, such as the conversion ratio of D-Marks into pounds, cannot avoid the necessary costs and efforts of adjustment, Devaluation is simply a backdoor method of reducing real wages; worldwide - even among coun-tries such as the UK which is this it will be no easier to adjust by devaluing than by pressing down on nominal

Missingly to the

How can one decide between these equally logical hnt starkly opposed views of the economic universe? My difficulty is that, although I am inclined towards the second view, I do not hold it nearly as strongly or as confidently as Jay holds the first. (This is a general problem. The support-ers of aconomic and monetary union in the EU are much less strongly convinced of the benefits than opponents are of the disasters.) And exchange rate ceptics went too far in playing down the short-term effects of a devaluation on a depressed

I do not blame Jay for taking bouts of uncompetitiveness (which many economists would call supply shocks) or wage rigidities as given facts of life. One must start somewhere. But it is a reasonable question whether such forces are not made much worse when everyone knows that the government can alwaya devalue. The slide of sterling from well over DM10 three decades ago to just over DM2

now is surely relevant. The Jay case is at its strongest if bouts of uncompetitiveness last only a few years and alternate with periods of high competitiveness when market forces might drive the currency up. Then it is possible for countries to have real interest rates lower than the going international rate because of market expectations that their exchange rates will recover.

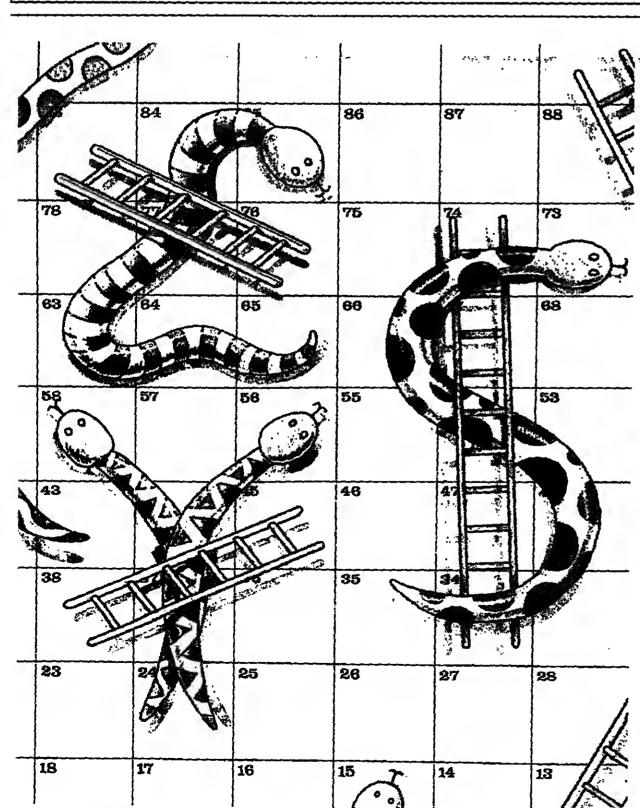
The Jay case is at its weakest when the "competitiveness" trend is downwards -often because of domestic infla-

tion. Then wage bargainers add on an implicit devaluation premium to the settlements they make. The US South might have been given a kick-start if it could have devalued after the civil war - as might the mezzogiorno in Italy after unification. But it is difficult to believe that a long-term depre-ciation of their currencles would have made much difference to real wages or employ-

The analogy with changing the clock (originally used by Milton Friedman in his argument in favour of floating exchange rates) is helpful here. Alternation between summer and etandard time may, indeed, be more convenient than asking everyone to get up an hour earlier. But a continuous adjustment of the clock in one direction would, surely, be seen through and lead more and more people to disregard the official time in favour of making their own arrangements for rising and retiring. In the British case, indepen-

dant monetary policies have brought mainly faster rates of inflation than in partner countries without any benefits to employment. Events of the last faw months have made the achievement of the main alternative route to stability - an independently accountable central bank - much less likely, and an Emn, run like the D-mark, still looks the best bet for low inflation and far from the worst bet for growth and

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COMMENT & ANALYSIS

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Fokker in a tailspin

The long agony of Fokker, the roubled Dutch regional aircraft naker, is nearing a climax. Havng failed to persuade the Dutch overnment to fund a rescue packe, ge, Daimler-Benz, the German industrial group which is the comany's largest shareholder, ppears poised to cut its financial iteline. Painful though the conseuences would be, that is probably he most sensible outcome for all avolved, and for Europe's aero-

For most of the past dacade, okker has been buffetted by cries. Despite capital infusions by ts parents and drastic cuts in osts and output, the company has nade increasing losses since 1993 and now has negative equity. Although there have recently been igns of a recovery in the regional urcraft market, it is unlikely to be nough to solve Fokker's funda-nental competitive weaknesses.

The company operates in a martet sector bedevilled by excess apacity and chronic price compeition. With two thirds of its outtoings in guilders, it is a high-cost roducer in a business denominated in dollars. It also needs to inance heavy development costs in the basis of modest, and

hrinking, output. That Fokker has survived until low owes much to the fact that he Dutch government has long riewed it as an arm of industrial trategy and a technological hampion, not as a commercial interprise. Daimler may have calulated, when it acquired majority control of the company three domestic political pressures would compel the authorities to bail Fok-ker out of future tropbles. If so,

the belief appears mistaken. Growing budgetary pressures make it difficult, politically as well as economically, for the Datch government to continue treating Fokker as a special case The company's labour force has dropped sharply since 1990, much reducing the impact on employment if it collapsed. Furthermore most of its remaining staff are highly skilled and well placed to find other jobs. At most, the gov-ernment now seems ready only to support the company while buyers

are sought for its assets.

When Daimler acquired its stake in the company, the deal was touted as the nucleus of a trans-European aerospace grouping, which would involve French and Italian interests. That ambition has been shattered. Instead the episode underlines the risks of ill-conceived "European solutions" to the problems of struggling national champion industries.

Too often, the companies concerned are too problem-ridden to survive without subsidies. Yet subsidies blunt the incentive to rationalise, while penalising competitors. When, as in this case, the company is one of the weakest players in an overcrowded business, the logical "European solu-tion" is for it to withdraw from the market. Trying to keep it afloat artificially does no favours to taxpayers, the rest of the indus-

Russia in Europe

The Strasbourg-based Council of Europe makes few headlines, and when it does it is often confused with, or assumed to be part of, the Suropean Union. Actually it is alder than the EU in any of its orms, and has a larger memberhip. It has no armies, investment ranks, or common tariffs. But it loes have the European Conven-ion on Human Rights, with the court and commission that adminairly punctilious in accepting as nembers only genuine democra-

ries that respect human rights. Since 1989 the council has gradnally expanded its membership to nclude the new democracies of entral and eastern Europe. In ome cases - notably Romania here was serious doubt whether hey would fully respect the obligations of membership. But it was hought better to let them in and use the machinery of the council to help them live up to their oblirations rather than reject them and leave their citizens at the nercy of resentful and isolated covernments. Similarly Turkey as retained its membership, in spite of much criticism of its numan rights record, so that vicims of oppression such as the Surdish MPs arrested during the last parliament do have soma chance to seek redress - admit-

tedly a lengthy procedure - from the Strasbourg court Now similar arguments are being urged on behalf of Russia,

ship will be considered this week Europe, But the assembly should resist such pressure. There are rity and Co-operation in Europe. Council of Europe, has no machinery to enforce its principles, which have therefore been treated more as aspirations than hinding obliga-

Indeed, Russia has flagrantly violated many of the provisions of the Paris Charter adopted by the OSCE in 1990, especially in its handling of the Chechen rebellion. No undertakings it may give can be taken seriously unless and until there is a radical change in

the main democratic bloc in Rus-sia's new parliament, said in Bonn on Saturday that council membership should be kept open for Russla as an incentive, but made conditional on the prior fulfilment of explicit conditions. Ha is right To admit Russia to the council now would make a mockery of the human rights convention. This would be a great loss to Europe as

by the council's parliamentary assembly. The assembly is under pressure to approve it, notably from the German government which is rightly anxious to avoid isolating Russia from the rest of plenty of other forums in which Russia can be engaged in dialogue about human rights — most obvir That organisation, unlike the tions by the member states. .

Mr Grigory Yavlinsky, leader of a whole, while bringing no benefit

whose applications for memberto Russia.

The elusive white collar criminal

Robert Maxwell was not the first financier to make the best of lax regulation, and will probably not be the last, says John Plender

ir Martin Jacomb, chair-man of Prudential Corporation, once famously shocked public opinion by declaring that insider dealing was usually "a victimless crime". Now, if the Serious Fraud Office decides not to pursue further prosecutions in the Maxwell affair, we may have something equally paradoxical a crime with no perpe-

trators. Following the acquittal on Friday of Messrs Kevin and Ian Maxwell and Mr Larry Trachtenberg on charges of defranding the Maxwell pension funds, pension scheme members feel bewildered and let down. While two thirds of the pen-sion funds' missing assets have been retrieved, it remains true that the victims, many of them elderly, have been subjected to much uncer-

tainty and misery.
It is thus understandable that people should look for scapegoats and point the finger at the Serious Fraud Office. Yet it should not be forgotten that white coEar crime cases have rarely satisfied the expectations of the victims, precisely because they pose very spe-cial difficulties. History has important lessons on what to make of the Maxwell affair.

Kevin and Ian Maxwell were merely bit players in the piece. The protagonist was unquestionably their father, the late Robert: Maxwell, the natural heir to a great 20th century tradition of fraudsters that goes back, via Clarence Hatry, to Horatio Bottomley and Whitaker

Bottomley's first encounter with the courts came with the crash of a printing and publishing company, Hansard Union. He escaped charges of swindling by putting up a bril-liantly plausible performance in court. It was only 83 years later, after milking numerous mining companies and being associated

with many other dubious ventures, that he was finally jalled for fraud. The persuasive Robert Maxwell escaped in similar fashion from the opprobrium of the Pergamon scandal in the early 1970s and had ample opportunity to make hay in the freeneeling climate of the 1980s before he disappeared from his yacht off the Canaries as his business empire

foundered . Whitaker Wright, who also dabbled in mining companies and over-committed himself in the financing of what subsequently became the Bakedoo underground line, had the misfortune to be prosecuted by Rafes Isaacsi As David Kamaston his history of the City, Isaacs' expo-sition of Wright's financial skalduggary was masterly. But justice was never done. The financier escaped seven years of penal servitude by taking a cyanide pill after hearing

In the late 20th century, heart disease often provides a less melodramatic escape routs for such questionable entrepreneurs. Wilfred Harvey, whose printing company ultimately found its way into Robert Maxwell's business empire, was never prosecuted for financial malpractices in the 1960s because of his incapacity on this score. Gerald Caplan, the entrepreneur behind the collapse of the fringe bank London & County Securifies in 1973, escaped extradition from the US for similar reasons.

Yet the fraudater who offers the closest and most instructive parallel with the former Labour MP Robert Maxwell is probably the 19th century Liberal MP and soi-disant philanthropist Jahez Spencer Balfour. Balfour built up the Liberator



Building Society, only to misappropriate its deposits and deploy them in disastrous property speculations.

The interesting point is that the growth of the building society movement had outstripped the legislative framework. Much the same could be said of pension funds in the present decade.

Fifty years ago, pension funds in aritain were small beer. Today they control more than £500hn. Few targets could be more tempting to the unscrupplous - especially since the whole structure of the average pension scheme could almost have been

designed to provoke fraud. For a start, the assets have no trust; and a majority of the trustees are usually directors. In effect, pension funds have been run as a form of investment trust subsidiary of the sponsoring company, which provides financial underpinning for the promise of a pension related to final

All Maxwell did was to take pension fund paternalism to its logical extreme. Where other companies took pension fund surpluses into their profits via contribution holidays, a practice that did wonders for the directors' profit-related bonuses, Maxwell took not only the surphises, but part of the main body of the fund as well, to finance his own private business empire.

tory framework offered few serious obstacles to the determined fraudster. Quite the contrary: it gave Maxwell an entrée into the retail financial services business without having to face any test of fitness and propriety. Since he had been declared by Department of Trade inspectors in the early 1970s to be unfit to run a public company, this was a very large unlocked door.

societies, the legislative and regula-

The regulatory omission underlines the fact that the biggest sys-temic failure in the Maxwell case did not arise from the judicial proceedings, which were anyway concerned only with the bit players, but the prior political process. It

ernment could have permitted the law affacting pension funds to remain so short of safeguards against wrongdoing, despite loud warnings for more than a decade about weak accountability and financial control.

In the 100 years between the col-lapse of tha Liberator Building Soci-aty and the Maxwell business empire, no one has found an answer to the problem that politicians win no kudos for plugging loopholes before money has actually been lost. Votes are only won by declara-tions after the event that the government will clamp down fiercely on white collar crime.

By the time it comes to the pas

sage of the relevant legislation, the sensitivity has usually diminished and the issues are too complex to excite the public imagination, interest groups exert disproportionate influence. Hence the misgivings of some City professionals over the new Pensions Act, which makes it harder - but not that much harder - to milk the pension funds of the

The Maxwell scandal was equally striking for the light it cast on the workings of the City. National Westminster Bank played an important part in restoring Maxwell's name in the banking community. Smith New Court eased his path in the stock market. Big US investment banks - Goldman Sachs and Lehman Brothers - were party to some of Maxwell's more bizarre dealings with the pension funds' investments. Numerous others jumped on to the Maxwell bandwagon when it became apparent, in the 1980s, that he was borrowing and dealing in very large sums thereby showering the financial community with fee income.

Yet if Maxwell exposed the extent to which City standards had fallen, this was probably an inevitable con-sequence of the increased pressure on profits arising from the deregu-lation of the old City cartels. Tougher competition from both domestic and foreign financial institutions wrought havoc on banks' margins. To survive in the new climate, some felt it necessary to take bigger financial risks or to cut cor-

This is not to exonerate them; merely to point out that, in today's City, reputation counts for less and the Serious Fraud Office (SFO) is having to deal with a situation to which business conduct is different and the complexity of frauds has increased. Moreover, to measure the SFO's performance purely in relamakes about as much sense as pay ing an army according to productivity as measured by the number of body bags. It may not have done well in these high-profile, expensive fraud cases. But history suggests that complex fraud trials do have a nasty way of making the authorities

According to Mr Christopher Duffett, managing director of Law Debenture Corporation, which acts as an independent trustee in the unravelling of the Maxwell pension funds saga, many in the City are already saying that the outcome of the Maxwell affair is the last nail in the coffin for juries in fraud trials. Yet to the mere layman, a move towards expert tribunals looks a less attractive option than clarification and strengthening of the law. to make the jury's task less diffi-cult. For the biggest lesson of history is that while the detailed methodology may change, the principles in frauds, however complex, are immutable. Maxwell was not

Suitable partners

Disgruntled Conservative MPs are not alone in looking beyond the hardening prospect of defeat for the government at the general election. As Mr John Major's party contemplates a bitter post-election struggle to decide the direction of Conservatism, Mr Paddy Ashdown is seeking to fashion a future in power for the Liberal Democrats.

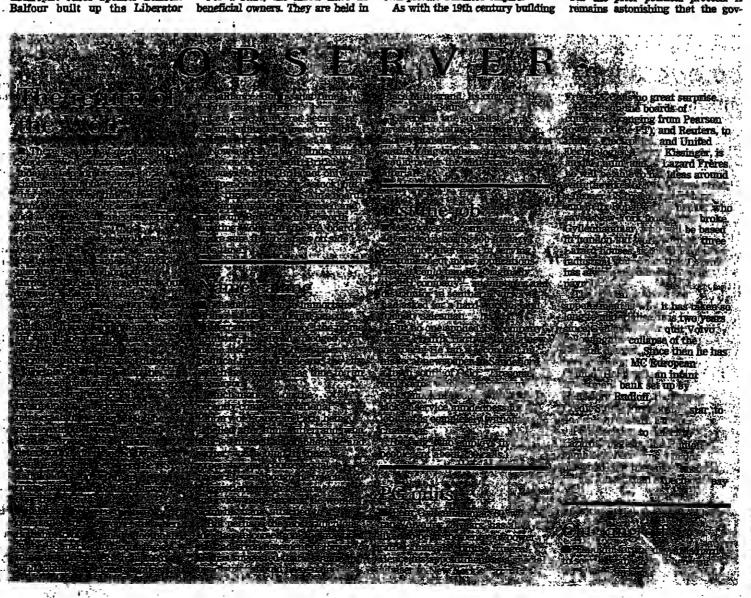
Mr Ashdown has already abandoned any pretence that his party might remain neutral between the government and Mr Tony Blair's New Labour during the election campaign. Now he is attempting to nudge the Liberal Democrats towards a post-election deal with Mr Blair. As he indicated in an interview with Sir David Frost yesterday, the Liberal Democrat leader does not want a formal electoral pact. But he does hope to lay the foundations for an agreement which could see his party play an active role in a Blair-led

administration. For all his publicly-expressed doubts about the depth of Labour's commitment to abandon socialism for social democracy, the Liberal Democrat leadar understands that much more now unites the two parties than divides them. More importantly, a Labour victory (ideally with Mr Blair emerging as leader of the largest party in a hung parliament) offers Mr Ashdown's party its only realistic escape route from the politics of protest. in spite of their undoubted success in local government, the Liberal Democrats will

otherwise remain stranded on the fringes of power at Westminster. In an important policy speech later today, Mr Ashdown will insist that he cannot be taken for granted. He will argue that the Liberal Democrats have set out distinctive policies on Europe, the environment, education and the economy against which Mr Blair's programme should first be tested. Above all, he will demand: that Labour's commitment to constitutional reform includes the replacement of the present first-past-thepost arrangements for the House of Commons with a proportional voting system.

His caution is explicable. The lesson of the Lib-Lab pact of the late 1970s was that the junior partner in any such venture is easily exploited. And while he has offered a referendum on the voting system, Mr Blair says he is sceptical of the case for change. Mr Ashdown, however, cannot avoid taking risks if he is to pull

his party on to the national political stage. A bolder approach would test Mr Blair's oft-declared commitment to a more pluralist style of politics. The Labour leader recognises that fundamental reform of Britain's political system and economic management will demand more than a single parliamentary term. In addition: it will require broader political consent than Labour alone is likely to secure at the general election. If his own analysis is correct, Mr Rlair also needs a partner.



100 years ago

Canadian Pacific prospects The position of the Canadian Pacific is a question of considerable importance. Rather less than a year ago the Directors unexpectedly decided to pass the usual dividend of five per centiper somem on the ordinary shares, and now holders, while not looking for the immediate resumption of dividends and beginning to debase in the minds how soon they may begin to expect again a return on the inge amount of capital diffy have sunk in this important undertaking. It was not suspicion that Canadian Patting within a very heavy heavy heavy the wind not only was the dividend passed for the second half of 1894, but it was found that most of the reserve fund had been used to meet liabilities.

50 years ago

Whither France? France is not a good advertisement for democracy in the form of a Parliamentary Government Just at a time of an arrival politicague essential to the same politicague essential to the same essential to t country's economy, she

FINANCIAL TIMES

Monday January 22 1996

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French institution agrees restructuring plan

Brussels set to approve \$3bn state aid for bank

By Emma Tucker in Brussels and Andrew Jack in Paris

The European Commission is this week expected to approve a FFr15bn (\$3bn) state aid package for Comptoir des Entrepreneurs, the specialist French property bank, which has submitted extensive restructuring plans in return for approval of a government-as-

The restructuring involves abandoning all the bank's activities ontside France and a shake-up of activities at home, a move which could lead to a halving of Joha. "This is a really clear-cut restructuring plan that makes sense," a Commission offi-

Clearance of the state aid comes amid growing doubts about the ability of Credit Lyonnais, the French state-controlled bank, to comply with conditions that were laid down by the Commission in July in return for a FFr45bn bail-out.

In what was the biggest case of

Fokker funds

come only a few days after the

official announcement of the hreak-up of AEG, the electrical

engineering company and another troubled part of the

ship of Daimler-Benz last May, he

initiated a radical restructuring

programme, involving hefty joh

cuts at Dasa and the sale of sev-

eral AEG divisions ahead of

AEG's aubsequent break-up. His aim is to turn Daimler-

Benz from an "integrated tech-

focused and more profitable

G7 optimism

the second half, s view shared by Mr Waigel. Mr Kenneth Clarke.

UK chancellor, said he stood by

his Budget forecast of 3 per cent

growth in the UK this year, although he conceded the UK

was currently growing "well below trend". He sald Britain

would be helped by a pick-up in

spending in France and Germany, which were planning mea-

sures to boost entrepreneurship

and small and medium-sized hust-

nesses. The ministers were also

reassured by a report from Mr

Wataru Kubo, the new Japanese finance minister, that there were

Europe today

Portugal will cause moderate to heavy rain in Portugal, Spain and southern France. During the afternoon, rain will spread northwards. Strong to gale force southeasterly winds will buffet the Meditorraneon coast of France, The UK

will have mostly cloudy skies with patchy rain and sleet on higher ground. Central

and eastern Europe will have moderate

winds bringing cold air. These areas will

remain rather cloudy. Greece will have some showers while southern Turkey will have sunny skies. Scandinavia will see sunny periods, although temperatures will

Low pressure near Portugal will move sicwly northwards with its associated cloud and rain. Pressure will remain high over Scandinavia and northern Russia pushing back milder air and ley rain to the south-west during the second half of the week. Winds will remain easterly over the UK and most of the continent. In many

areas, wintry conditions with sub-zero

Five-day forecast

signs of recovery in his economy.

Continued from Page 1

for the foreseeable future.

Decision on

Continued from Page 1

state ald ever to come before Brussels' competition authorities, Crédit Lyonnais was told to sell 35 per cent of its assets outside France, by the end of 1998.

However, there has been a fierce debate over the contents of a letter sent to the Commission by Mr Alain Madelin, French finance minister at the time the package was finalised, who argued it meant the bank would have to sell as much as half its assets in Europe outside France. Last week, the Crédit Lyonnais board acknowledged for the first time that it had seen Mr Madelin's letter, and stressed its demands could he difficult to meet in the period up to 1998

- something it was determined to The board would not confirm whether it interpreted Mr Madelin's letter as meaning it would have to sell auch a high propor-tion of its European assets dur-

without leading to a daterioration in the bank's financial condition

stressed that the letter acknowledged the possibility of re-examining the conditions agreed with Brussels at the end of this period given "certain conditions".

In Brussels, officials indicated that while there could be some leeway on the timing of the asset sales, everything else was immovable. The Commission had no official comment to make, preferring to wait for details from the French authorities.

One of the conditions under which the state aid was granted, was that Crédit Lyonnais and the French government had to provide Brussels with regular information on how the conditions were being met.

which employs more than 1,100 staff, has predicted it will make osses of up to FFr600m this year and return to break-even during the second half of 1996. It has pledged to cut loans and manage ment costs substantially and

Mexico plans rescue to avoid large-scale company defaults

Dalmler-Benz empire that stood little chance of turning in profits The Mexican government is poised to rescue some of the As a former Daimler-Benz Aerospace (Dasa) chairman Mr country's largest and most Schrempp took the controversial heavily indehted companies in an decision to buy Fokker in 1993. After he took over the chairman-

long-term government honds is the clearest indication of the damage wrought by last year's financial crisis, in which Mexico avoided default on its foreign debt at the cost of a deep receshas strangled a large part of the business community.

national development bank, said the finance ministry was prepartions would be allowed to huy at a large discount. Creditor banks would then accept these bonds at ing to write off the equivalent

amount of corporate debt. Nafinsa officials would not dis-close the cost of the corporate rescue, but said special low-cost credit lines, partly financed by the Inter-American Development Bank, had been arranged to help

companies buy the bonds. fold," a Nafinsa official said. "It will give immediate relief to large rates oo commercial bank debt.

The plan to cancel their liabilitles to Mexican banks with

"The aim of the plan is two-

(55)

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LOW

FT WEATHER GUIDE

refocus its remaining activities ing the next three years. It as part of its rescue package.

By Leslie Crawford

effort to avert the threat of large-scale corporate defaults.

Officials at Nafinsa, the ing o special issue of sovereign bonds, which indebted corporaface value in exchange for agree-

corporations which are struggling with very high interest and it will strengthen the portfo-

Comptoir des Entrepreneurs,

lio of domestic banks, as they will be able to lower provisioning against risky corporate loans." Despite several interest relief

and deht rescheduling schemes for small debtors last year, prob-lem loans almost trebled in 1995 to 113.5hn pesos (\$15hn), an amount equal to 17.5 per cent of the banking system's total ioan portfolio, according to Mr José Madariaga, president of the National Bankers' Association. Overdue loans have put an intolerable strain on capital and reserves of commercial hanks, and several banks have needed

cash to stay afloat. Mexican bankers estimate that as much as 40 per cent of overdue loans in the banking system are owed by large corporations.

Nafinsa officials said about 20 large corporations had been singled out for the debt rellef scheme. A special finance ministry committee had been appointed to examine the needs of each corporation and mediate hetween the company and its bankers, they said.

The companies singled out for special treatment are expected to include Aeromexico and Mexicana, two privatised and nearbankrupt airlines which were taken over in 1994 hy a consortium of creditor hanks. Sidek, which has interests in steel, hotels and property development, and reported liabilities of 12.4bn pesos, or 72 per cent of assets last September, is also understood to be in the rescue plan.

Election Arafat's personal victory

By Julian Ozanne in Jerusalen and Mark Dennis in Ramallah

declared in large districts like Hebron and Khan Younis.

In several districts such as Arab East Jerusalem, Ramailah and Gaza City, independent candidates won more votes than official Fatah candidates. In Bethlehem the entire Fatah list was defeated and in Gaza Mr Marwan Kanafani, Mr Arafat's spokesman, and former housing minister Zakaria el-Agha failed

to be elected.
Pollsters estimated more than 30 opponents and critics of Mr Arafat's one-man rule could be elected, raising the prospect of a strong critical voice in the new

The upset for Mr Arafat came as results showed the Palestinian leader winning almost 89 per cent of the vote in a two-person race for the presidency of an executive authority, on a high voter turnout of about 75 per cent of the 1m registered voters. His only opponent, Mrs Samiha Khalil, won 11 per cent of the vote. Some 5 per cent of ballot papers had been spoilt.

The high turnont was a defeat for the Hamas Islamic group and other groups opposed to the Israeli-Palestinian peace process who had mounted a boycott of ful of Islamic candidates linked to Hamas were elected in the Gaza Strip.

Palestinian officials hailed the poll for the presidency as a victory for Mr Arafat's democratic legitimacy. "Although he was recognised as the leader during the past 30 years, Yassir Arafat now has a new position, he is the first elected Palestinian leader," said Mr Mahmoud Abbas, one of the most senior Palestinian offi-

Israel also welcomed the poll as a show of Palestinian support for the Israeil-Palestinian peace agreements. "The vote wasn't only to elect the representatives of the Palestinlans but effectively also confirmed that a decisive majority of the Palestinians backs the agreements," said Mr Shimon Peres, prime minister.

> Not all the votes go Fatah's way, Page 4

> > i 0**2**0

upset mars

Palestinian voters yesterday delivered a series of bumiliating defeats to handpicked candidates of Mr Yassir Arafst, while giving their veteran leader a landslide personal victory in his people's first national elections. In early results, independent

candidates and critics of Mr Arafat's anthoritarian rule looked set to emerge with much greater support than expected. Results announced in 11 of the 16 electoral districts showed independents had won 22 seats to Fatah's 25 although Fatah was still expected to gain a majority of the 88-member lsgislative council when later results were

assessing emerging markets because of the fading allure of their domestic markets. US investors believe that a repetition of their home market's outperformance last year is unlikely. With low interest rates, low growth and low inflation, domestic markets are steady enough to foster confihold their interest.

THE LEX COLUMN

Fokker's crash landing

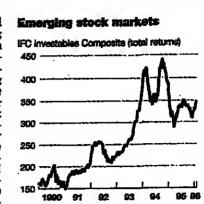
Fokker appears to be in a fatal tailspin. Daimler-Benz, its controlling shareholder, has injected over DM3bn (\$2bn) into the ailing aircraft manufac-turer since its initial ill-judged investment in 1993. With problems besetting them on all sides, the Germans will be reluctant to throw good money after bad, when they decide Fokker's fate at today's board meeting. And supporting Fokker would be highly unpopular at a time when it is cutting aerospace jobs in Germany. But the Dutch government, Fokker's other principal shareholder, would find it just as difficult to justify the use of F13bn (\$1.8hn) of taxpayers' money to rescue a com-pany under foreign control.

The financial arguments for letting Fokker go hust are overwhelming. With half a dozen serious players, the regional jet market is plagued by overcapacity. While aircraft are priced in dollars, Fokker is hurdened by a Dutch guilder cost base. Having lost F1651m in the past six months, analysts expect losses and restructuring charges to amount to twice that in 1996. The group has negative shareholders' funds and debts of Fl4bn.
Of course there are political consid-

erations too. The Dutch government will try hard to preserve the 7,800 jobs at Fokker, Daimler and Mr Jurgen Schrempp, its chairman, who was behind the investment in Fokker, stand to lose face if it goes under. It is even possible that one of Fokker's rivals may swoop in at the last minute to pick up the group's order book and technology. But the halving of Fokker's share price in the past 10 days shows rescue hopes are fading,

Emerging markets

When both economic fundamentals and flow of funds coincide, the upward momentum is hard to resist. That is the case for emerging stock markets this year. Prices are relatively cheap, whila emerging economies are still growing rapidly. And everyone is pitching in: with low interest rates in the developed economies, there is plenty of liquidity sloshing around. International fund managers are re-



Not surprisingly, the global flow of funds into emerging markets is closely correlated with performance. According to ING Barings estimates, the inflow reached a peak of \$62bn in 1993. the markets' best year, dropped to \$40bn in 1994 and plummetted to \$15hn last year, in the wake of the Mexican crisis. If the current pace continues, the inflow this year is on course to

reach \$50bn. The next question is which market to pick. The most obvious criterion is economic growth. Malaysia and Hongkong are expected to grow 8 or 9 per cent this year, Mexico, on the other hand, may grow just 1 per cent, and the growth prospects elsewhere in Latin America are also poor. But emerging economies, like emerging markets, are volatile. In Asia, high interest rates designed to prevent overheating may end up reining in growth substantially, causing earnings to collapse. The main reason for buying Malaysia or Hongkong - earnings momentum - could evaporate.

Furthermore, most companies in emerging markets are less motivated to maximise returns to shareholders than, say, US companies, which with much lower economic growth may still generate better earnings growth. This means that working out whether share prices offer good value by comparing them with prospective earnings can be difficult.

Still, lcoking for a mix of reasonable value, strong growth and an improv-ing record on inflation is a good thumbnail guide. On this basis, India looks a buy. The economy is expected to grow about 6 per cent, while inflation is in single digits and falling. The good thing about the scandals which have dogged the market is that further impact. And while India's cyclical the doubt.

stocks may prove vulnerable to conmodity price fluctuations, the size of the market means there are plenty of opportunities in growth areas like telecoms, pharmaceuticals and technology. Latin America, despite its poer growth prospects, also has something to offer - not least, it comes from a low base. Argentina and Brazil, the big offenders on inflation, appear to be hringing it under control. And bolli markets look reasonably valued at just over 10 times prospective earnings. In Eastern Europe, the Polish market, which has already made a strong start to the year, is set to reap the beuefits

of inward investment.
Still, when the market eventually turns, some investors are bound to get hurt: the easiest prediction is that some time in the next few years there will be another sharp downturn. Until then, there is money to be made.

Stagecoach

Stagecoach never seems to stop growing. On Thursday the govern-ment cleared one acquisition; on Friday, the company announced another. The flow of potential acquisitions in the UK bus industry has not yet dried up, but it inevitably will. As the num-her of opportunities dwiodles, one might have thought Stagecoach would opt for a period of consolidation. On the contrary, the company is now bidding aggressively for rail franchises.

Is the company hiring off more than it can chew? Trains and huses are, after all, very different. The rail unions are more powerful. And Stagecoach's aggressive tactics against competitors will not be much use on the railways: for the time being, fran-

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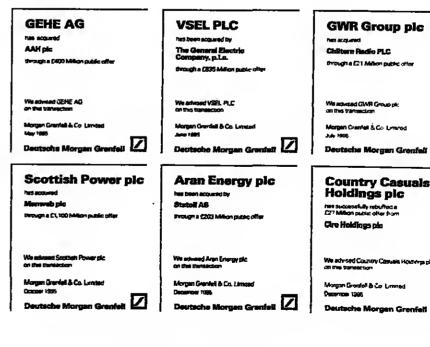
E OILS

chisees will enjoy monopolies, But the prospects for making sub-stantial sums of money out of rail franchises, with very little capital outiay, are considerable. Of course, an incoming Labour government might open the network up to competition. trying to cut franchisees' profits. But if anyone is likely to be able to cope with this, Stagecoach is. And at 13-14 times next year's earnings - not much of a premium to the market - the shares hardly look overpriced for a company growing at this speed.

The real question is whether Stage coach's ambitions are over-extending its management. But many investors, who have seen their shares ontperform the market by 100 per cent over the last two years, will be inclined to

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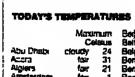


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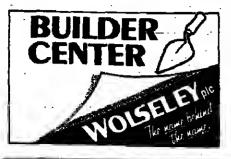
temperatures will prevail.

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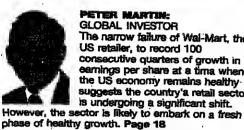
FINANCIAL TIMES COMPANIES & MARKETS

TECHNOLOGY T.O.D.A.Y **BRITISH VITA PLC**

OTHE FINANCIAL TIMES LIMITED 1996

Monday January 22 1996

MARKETS



PETER MARTIN: GLOBAL INVESTOR The narrow failure of Wal-Mart, the US retailer, to record 100 consecutive quarters of growth in earnings per share at a tima when the US economy remains healthy suggests the country's retail sector is undergoing a significant shift.

STEPHANIE FLANDERS Days after Mr Anatoly Chubais, the Russian deputy prime minister, said in London his country's anti-inflation policy remained on track, he was sacked. With an election approaching, efforts to subdue inflation may be relexed, but there are now important checks on inflationary spending in Russia. Page 18

Coopers & Lybrand is about to unveil a report outlining comprehensive system of risk management principles for financial institutions, intended to become a common strategy for the industry. Page 20

US investors are likely to focus on earnings reports due in coming weeks and the State of the Union Address by President Bill Clinton on Tuesday. A thin list of economic news and company statements in London means the market will have to look elsewhere for Inspiration, possibly to Walf Street. Page 19

EMERGING MARKETS: Shanghal's B Index, on which shares are reserved for foreign investors, has slumped by more than 50 per cent in the past two years. But provided the Hong Kong market continues its rise, most brokers believe the Chinese Index should recover in the second half of this year, Page 19

Opinions are divided over the potential for further strengthening in the dollar, but if, as some economists suspect, there are further European interest rates cuts on the way, the dollar could gain further ground against the D-Mark. Page 19

INTERNATIONAL COMPANIES: The \$10bn battle for First Interstate, the US bank. has swung heavily in favour of Wells Fargo after its rival, First Bank System, hit a regulatory obstacle to the structure of its own offer. Page 16

UK COMPANIES: Alcan Aluminium of Canada is at an advanced stage in negotiations to sell 12 aluminium businesses in the UK to a new company headed by Mr Ian McKinnon, formerty a divisional managing director at British Alcan. No date has been set for the completion of the deal. Page 16

STATISTICS

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German groups in TV decoder deal

Tha Kirch group, one of Germany'a largest media organisations, will join a consortium headed by Bertelsmann, its rival, to develop a pay-per-view standard decoding box which will pave the way for the launch of digital television this year.

The decision marks a breakth worth The decision marks a breakthrough

since it will allow both groups to pool resources to launch a system which will cost several billion D-Marks in start-up costs, instead of splitting the market between the separate decoding systems that both groups had started develop-

had agreed to a standard decoding box but Kirch's stake in Multimedia Betriabsgesellschaft (MMBG) was left unresolved.

MMBG, set up by Bertelsmann, was headed by Deutsche Telekom, Germany's state telecommunications network, with Bertelsmann, Canal Plus, the French commercial television group, ARD and ZDF, the German public broadcasting networks. and RTL, the commercial network, hold-

ing stakes.

The technology controlling access to decode television signals was to be be run by Seca, a French company jointly owned by Bertelsmann and Canal Plus

Under the agreement forged secretly in Frankfurt last week, Kirch will take a 50 per cent stake in a new company in which Seca, Bertelsmann and Canal Plus will also have stakes. This will develop the "conditional access system", the software required for viewers to have access to the

Kirch will also take a stake in MMBG, whose shareholding structure will be revamped. The two largest shareholders will be Deutsche Telekom and Vebacom, the telecommunications division of Veha, the industrial conglomerate, with 26.8 per cent and 23.9 per cent respectively. Bertelsmann and Kirch will each hold 9

per cent and the rest of the suares who divided between ARD, ZDF, CLT, the Lux-embourg television group, RTL and Canal

The agreement ends one chapter of the rivalry between Kirch and Bertelsmann. But it will also allay fears among broadcasters that programmers and viewers might have had restricted access through

the system developed by Kirch.
"The key issue was making access to digital television open to a broad mix of programme makers and having one sys-tem which the market could bear," said Mr Albert Scharf, head of ARD, the state public service broadcasting network.

TI wins ruling in **US** fraud action

By Tim Burt in London

TI Group, the specialist UK engineering and aerospace com-ponents manufacturer, has won an important legal ruling in New York in its fight against a \$60m (£39m) fraud action brought by

the US justice department. The group was accused of inflating labour costs and raw material prices during a 10-year scheme allegedly to defraud the

US Air Force. However, Judge Louis L. Stanton decided the district court for the southern district of New York had no jurisdiction to try the case. The action was seen as a test case on both sides of the Atlantic. It was the first lawsuit in which the US government had pursued fraud action against a company supplying components from outside the country.

Attorneys in New York said the fustice department would seek an appeal and reserved the right to pursue separats actions in California and Oklahoma, the

states where TI signed contracts with the US Air Force. TI welcomed the indge's deci-sion, even though it could be ovarturned on appeal. "The judge has decided there is no case to answer on the basis of jurisdiction," the group said. The lawsuit was filed last

April following a "whistleblower" action by Mr Jeffrey Thistlethwaite, a former manager at Dowty Woodville Polymer, the TI subsidiary which manufactured wing seal slots for US swing-wing aircraft.

As part of the case, Mr Thistlethwaite would have been entitled to a share of any damages awarded. He alleged that Dowty Woodville Polymer falsified doc-uments and withheld the true costs of manufacturing thousands of components for the F-111 strike jet and the B1-B

It won those orders in the 1980s under fixed-price contracts, in which it was supposed to disclose production costs and propose a percentage profit.

The justice dapartment also alleged that Dowty Woodville Polymer violated the False Claims Act, the Truth in Negotiations Act, breached contracts. was "unjustly enriched" and received "payments made under mistake of fact".

All the charges have been denied by TI Group, which acquired Dowty Woodville Polymer as part of its £510m (\$790m) acquisition of Dowty in 1992.

Forte claims 35% support as bid battle enters finale

By David Blackwell in London

Forte yesterday claimed the support of holders of at least 35 r cent of its shares as its £3.5hn (\$5.4m) bid battle with Granada, the UK television, leisure and catering group, neared a climax.

The claim came on the eve of a decision by Mercury Asset Management on whether to back Granada's offer for Forte, the UK's largest hotel group, in one of the country's most fiercely contested takeover battles in the MAM has a 15 per cent stake in

Forte and will probably decide its fate. Forte's assumption of 35 per cent does not include MAM's stake. It is hopeful of gaining the asset manager's support and believes it can win without it. MAM has a 15 per cent stake in Granada, led by Mr Gerry Robinson, and has strongly supported it in the past. It heard final pre-

sentations from both sides on Fri-

day, and is expected today to meet Whitbread, the brewing and leisure group that will buy Forte's roadside restaurant businesses for £1.05bn if the hotel group survives the bid.

The offer closes at 1pm tomor

"We believe MAM are playing this dead straight and will make their decision today," Mr Richard Power, Forte communications director said yesterday. "If they go for us it will be very difficult for Granada to win, but if not, it will still be run right to the

Granada said yesterday whatever claims Forte cared to make, it remained "quietly confident". Forte has not let up in its vigorous defence against Granada. On Friday night, it agreed to sell 67 of its 72 White Hart hotels for £122m to the Regal hotel group. Earlier, Sir Rocco Forte, chairman and chief executive, spent £147m on shares in the group



Final fling: Gerry Robinson, Gravada chief executive, at London Weekend Television studios yesterday. Granada said it remained 'quietly confident' of winning the bid battle for Forte

founded by his father in 1935. Following Sir Rocco's purchase, the Forte family and directors speak for 8.4 per cent of the shares. Private investors, most of whom are expected to back the group,

hold 15 per cent. Granada made most of the running last week, buying up just under 10 per cent of the botel group's shares. By the end of the week, several large institutional investors in Forte, together holding 11 per cent, indicated they of the strategic logic. It is better

would be backing the bid. However, many fund managers have left their decision until today.

NatWest Investment Management, which has just over 1 per cent of Forte and 0.7 per cent of Granada, said last week that Granada was not paying enough. Mr Mark Wasilewski, director of NatWest's UK equities, said Granada's record "speaks volumes. But despite their credentials they have not convinced us

for shareholders to have a concentrated Forte and a less diversified Granada."

However, most analysts have urged shareholders to back Granada. NatWest Securities recommended acceptance and Kleinwort Benson said it believed there was "less risk for Forte shareholders in accepting Granada's revised offer now than waiting for the Forte NewCo to deliver in the years ahead". Regal details, Page 16

SBC Warburg faces limit on US operations tions, although US firms are free

By Norma Cohen in London

SBC Warburg will have to curtail its US securities operations unless the investment bank's lawyers can strike a deal with regulators in negotiations for a

bank securities licence.

The move would be a setback for SBC Warburg, which was formed after Swiss Bank Corporation's 1995 acquisition of S. G. Warburg, the UK investment bank. Swiss Bank wants to strengthen its presence in the US securities market and hoped integrating Warburg 's US securities operation into its own would help it to do so. US banking laws constrain

securities activities by banks, except under very limited circumstances. Under Section 20 of the Glass-Steagall Act, banks are permitted to derive no more than 10 per cent of total revenues from the distribution and underwriting of corporate securities. The failure of Congress last

year to repeal Glass-Steagall has heightenad concerns among European institutions that they will be effectively banned from making significant US acquisi-

to acquire European competitors. Federal Reserve officials note US banks are forbidden from purchasing US investment banks. But the US is unusual in having separate banking and investment institutions, and in Europe there is no separate investment banking industry. Barring bank ownership of securities firms effectively bans Europeans from

European bankers say. SBC received a temporary exemption to Glass-Steagall last May, permitting it to proceed

competing in the US market,

with the acquisition of Warburg. But its subsequent application to retain all US operations has not been approved, and regulators say this will not happen until it meets their requirements.

SBC was initially given a year

to reduce its securities business. abandon its US banking activities, or restructure its activities so that it no longer falls foul of Glass-Steagall. Its lawyers have been negotiating with the Fed since last summer. S. G. Warburg's US operations have not been integrated into SBC and are the only part of the firm still

carrying the former name. SBC has been unable to realise the merger cost savings it hoped for. We can't have common marketing trips, we can't manage accounts in a single location," said one SBC Warburg official.
Other banks which have strug-

gled with US regulators include Bayerische Vereinsbank which in December abandoned an attempt to purchase US-based Oppenheimer Group because US banking regulators failed to agree to approve the deal quickly. SBC Warburg declined to com-

This week: Company news

US OILS

ake it

Downstream to hold back profits in fourth quarter

A jump in natural gas prices and some increase in the oil price should result in higher upstream, exploration and production profits when US energy groups report their fourth-quarter earnings over the coming days. This will be balanced, though, by weak profit margins from the downstream, refining and marketing business in the US, and a continuing decline in earnings from petrochemicals.

Among those to register the best year-on-year profit advances should be Amoco, which relies for a higher proportion of its earnings on natural gas, and Mobil, which is less dependent on downstream activities in the US. The mean estimate of IBES, which

surveys analysts' predictions, suggests quarterly earnings of \$1.05 a share at Amoco, up from 88 cents a year ago, and \$1.75 at Mobil, compared with \$1.61. Texaco is expected to earn \$1.10 a share, up from 99 cents the year before, while Exxon's earnings per share should climb by 5 cents to \$1.24.

Chevron has warned that its fourth-quarter profits will be hurt by the shut-down of a West Coast refinery. IBES puts carnings at 66 cents a share, down from 91 cents.

Those energy groups which rely heavily on income from chemicals operations are likely to register a continuing slowdown in earnings, stemming from a steady fall in the price of basic petrochemicals since the

middle of the year. This will result in lower chemicals carnings than in the third quarter though year-on year comparisons should still show an improvement in

Analysts expect Atlantic Richfield to report earnings of \$1.78 a share, down from \$1.87 a year before, while Occidental Petroleum's earnings are expected to be close to the 18 cents a share of the final quarter of

US AIRLINES Strong gains despite price pressures

1903

US airlines are expected to report fourth-quarter earnings this week sharply higher than the previous year despite strong competition from low-cost carriers which put pressure on prices through the year, analysts said, reports AFX News in New York.

However, they said the outlook for more moderate economic growth in 1996 could cloud an otherwise buoyant earnings outlook. Mr Jim Higgins analyst at Donaldson, Lufkin & Jenrette, said the general performance of the airlines was good in the fourth quarter and he expected "substantially higher earnings" than a year earlier, with positive earnings surprises more

likely than negative ones Mr Higgins said the industry benefited mostly from a lack of supply and although traffic was at all-time high levels it was not rising a lot. Mr Julius Maldutis, analyst at Salomon Brothers, said the US airline industry was "well on the way to record earnings in 1995 that will probably exceed \$2.5hn".

USAir Group is scheduled to post results today and analysts expect earnings of 60 cents a share compared with a loss of \$2.23 a year earlier. The company said in December it expected earnings to exceed the high end of analysis' estimates. UAL, United Airlines' parent, is expected to report earnings tomorrow of \$3.12 a share, compared with a loss of 98 cents.

OTHER COMPANIES Party"time at * 100-year-old Roche

■ Roche: The world's largest pharmaceuticals company by market capitalisation tomorrow kicks off a year's celebrations of the 100th anniversary of its founding.

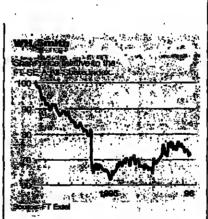
Among the early events is the publication of a frank history of the

company. It includes accounts of some of the damaging events of the 1970s, including the Seveso chemical accident, which led to hundreds of illnesses, and the affair involving Mr Stanley Adams, a former employee who accused Roche of violating European Community law.

■ Coca-Cola: The US soft drinks company recently saw its share price soar amid optimism over its prospects for overseas growth. But on Thursday, when the company reports fourth-quarter results, it is likely to confirm earlier forecasts that weakness in Mexico and Latin America held back the increase in international volumes to

a modest 5 per cent.
Even so, that should be enough to keep profits moving well ahead: and with an amusually strong performance from the domestic side of the business, analysts are expecting the company to report a 15 per cent increase in het profits to \$650m, lifting earnings per share from 44 cents to 52 cents.

■ Unitech: The international electronic components and controls group is expected to report increased interim pre-tax profits of about £20.5m (\$32m)

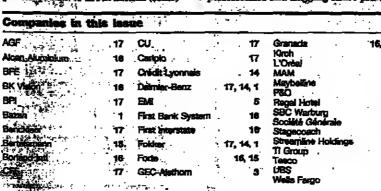


on Thursday, up from £15.8m last time

■ WH Smith: The UK retailer is expected on Wednesday to announce a sharp drop in interim profits from £45m to £17m (\$26m), because of higher losses at Do-Rt-All, the joint venture with Boots, the retailer, a sharp rise in interest; and provisions of about £20m. High street rival John Menzies is today likely to announce a fall in first-half pre-tax profits from £7.3m to about £5m.

■ NFC: Lively questioning can be expected at the annual general meeting on Saturday of the UK transport and logistics group. It is usually one of the best attended

Shareholders will have their first opportunity at the Bedford inseting to quiz several of the group's new board members, including Mr Gerry Murphy, chief executive, about its poor profit performance and flagging share price.



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Union Bank of Switzerland



Alcan plans £200m UK sale

By Richard Lapper

Canada's Alcan Aluminium is at an advanced stage of negotiations to sell 12 aluminium businesses in the UK to a new company headed by Mr Ian McKinnon, formerly a divisional managing director at British Alcan.

No date has been set for completion of the deal, which is thought to be worth between £170m and £200m, although the company said last week that it hoped to have "largely completed" the divestment of all non-strategic husinesses by the mid-

A consortium of UK institutions, led by Mercury Development Capital, the development capital arm of Mercury Asset Management, and also incloding Morgan Gren-

fell Development Capital and CVC Capital Partners, is backing the new company. Mr McKinnon came to prominence in the 1980s when he led a management huy-out of Leyland Bus and then sold the company in a multi-million pound deal,

Alcan originally announced its plans to sell the downstream businesses - which make products ranging from high pressure gas cylinders for fire extinguishers to aluminium foil - in March last year. Talks with the consortium members have been under way since June. Among the 12 husinesses to be sold are Luxfer Gas Cylinders. Magnesium Elektron and MEL Chemicals.

The downstream businesses, which account for roughly half of British Alcan's assets, employ 4,200 people and last year generated sales of £500m.

The sale is in line with a strategic review in 1993 when the company decided to focus on "core" businesses such as bauxite refining, smelting and rolled alu-minium. Since then Alcan has disposed of several businesses in North America, Bra-zil and the UK and a 73 per cent shareholding in Alcan Australia.

The company originally invested in downstream business in order to reach customers for its primary aluminium production and rolling mills. In a recent state-ment Alcan said this strategy "no longer made sense in the 1990s, where end-user markets were more developed [and] highly competitive". The "cyclicality of primary aluminium" also meant that "downstream investment frequently suffered in favour of core assets".

Regal deal would boost number of hotels to 89

By David Blackwel

Regal Hotel Group, the provincial chain which gained a full listing in May last year, would quadruple the number of its hotels if the £122m deal to buy Forte's White Hart

chain went through.

The group, which is 75 per cent held by institutions, started life with three hotels in 1993 and now has 22. The White Hart additions would give it a total of 89.

Mr Charles Vere Nicoll, chief executive and one of the founders, said yesterday that the deal would give the group a large presence at the smaller end of the three-star provincial hotels market. He would be meeting institu-

tional shareholders this week to discuss financing for the deal, which would involve some form of equity raising. Regal has agreed to pay £90m cash, with the remainder in 6 per cent redeemable convertible preference

shares. The deal is conditional on the failure of Granada's bid for Forte. The bid's outcome Granada yesterday attacked

will be decided on Tuesday. tha sale agreement. Even if it went ahead, "it is the wrong time to be selling anything, said Mr Charles Allen. Granada's chief executive desig-

Wells Fargo gains edge in First Interstate battle

By Richard Waters in New York

The \$10bn battle for First Interstate, a Californian bank, awung heavily in favour of Wells Fargo on Friday as its rival, First Bank System, hit a regulatory obstacle to the structure of its own offer. The regulatory ruling, from the Securities and Exchange Commission, would prevent First Bank from making any

big stock repurchases for two years if it succeeds in merging with First Interstate. The bank had intended to buy back some \$2.5bn of its own stock this year and in 1997, a plan central to its finan-cial justification for the deal.

The SEC restriction stems from First Bank's plans to use a method of accounting known as pooling of interests, a form of merger accounting in which no goodwill is recognised after

transactions, since the merged company does not have to write off the goodwill against future profits, as would be required under US rules.

The use of pooling, though, severely limits the circumstances in which a company is allowed to buy back stock.

Mr Richard Zona, First Bank's chief financial officer, said ha was "extremely sur-prised" by the SEC's ruling. Both the bank and its auditors. Ernst & Young, believed the agency had not followed pub-lished guidance in reaching its

view, he added. Mr Zona claimed, though that First Bank would still be abla to achieve financial returns "comparable" with those it had projected earlier by making additional acquisitions and through other

growth plans. Wells Fargo greeted the SEC

This accounting approach is ruling enthusiastically, saying commonly used in all-stock it "materially lowers the value" of its rival's offer.

Wells Fargo, for its part, has said it would use purchase, or acquisition, accounting for first Interstate, a move that would create a large amount of goodwill, but which would allow it to engage in big share repurchases of its own.

The competition for First Interstate had already tilted in Wells Fargo's favour in recent weeks as the value of its all-stock hid has drifted above that of First Bank.

By the end of Friday, Wells Fargo'a offer was worth around \$144% for each First Interstate shara, compared with the \$126% value implied by First Bank's hid.

First Interstate's shareholders are expected to be asked to vote on the two offers in February or March. Both plans also need approval from anti-trust and banking regulators.

Streamline float valued at £100m

By Christopher Price

The supplier of traffic cones and painter of white lines on Britain's highways is coming to the stock market next month in a flotation expected to value the company at over France, has risen 18 per cent to £152m. Margins rose from 9.1

Streamline Holdings, which specialises in road services and huilding products, was a £72m management huy-out from Shell in 1993. It hopes to raise £20m in new money which will be used to pay the venture cap-

Gearing Would reduce to around 30 per cent, with interest cover of 15 times after the Forty-eight members of the

software company, is making a

comeback following deep cut-

backs, management changes

and the sale of its flagship

application programmes, writes Louise Kehoe.

The USM-traded concern

reported pre-tax profits of \$1.06m (£680,000) for the three

months ended December 31,

compared with \$22.9m losses

last time. This boosted the fig-

ures for the nine months to

the same date to \$7.87m (£5.11m) although this was much lower than the

not been decided whether they will sell any of their holdings. Since the huy-ont three years ago, operating profits have risen 60 per cent from £9.5m to an unandited £15.2m in 1995. Turnover, which is split almost equally between the UK and

per cent in 1994 to 10 per cent last year. Streamline is the UK's big-gest manufacturer and applier of road markings, with the husiness accounting for 44 per cent of group sales. The company also supplies road surface products and traffic safety

equipment. Mr Terry Simpson, chief executive, said the business henafited from the trend management own 12 per cent henafited from the trend of the pre-float equity, it has

Borland, one of the largest

US personal computer software

companies in the late 1980s.

declined in the face of mount-

ing competition from Micro-

Borland was also drained by

a five legal battle with Lotus

Development over software

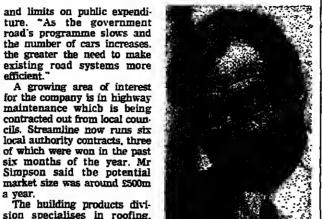
convright issues associated

with its spreadsheet program.

Supreme Court upheld an Appeals Court ruling in Bor-

land's favour in the long

Earlier this month the US



Terry Simpson: benefits from greater car density

and limits on public expendi-

ture. "As the government

road's programme slows and

the number of cars increases.

the greater the need to make

existing road systems more efficient."

A growing area of interest

cils. Streamline now runs six

local authority contracts, three

of which were won in the past six months of the year. Mr Simpson said the potential

market size was around £500m

a year.
The huilding products divi-sion specialises in roofing,

flooring and structural water

proofing materials. It produces around 27 per cent of group

	CROSS BORDE	ER M&A DEALS	3	
BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
L'Oréal (France)	Maybelline (US)	Consumer products	£373m	Cash offer raised
Benckiser (Germany)	Maybelline (US)	Consumer products	£336m	Surprise bld
National Industries (Kuwait)	Bl Group (UK)	Engineering	£96,3m	Agreed bld
Fairey Group (UK)	Particle Measuring Systems (US)	Electronics	£49m	Cash & paper deal
Pillsbury (US)	Pasta Hornes (Australia)	Food	£48.5m	Pacific Dunlop disposal
McKechnie (UK)	Thompson International (US)	Auto components	£42m	Claiming niche leadership
Morgan Crucible (UK)	Wifried Liphardt (Germany)	Engineering	£16.5m	German expansion
DSM (Netherlands)	Chemie Linz (Austria)	Chemicals	n/a	Sale by OMV
ICI (UK)	Ibernobel (Spain)	Explosives	n/a	51% stake agreed
Weir Group (UK)	Salweir (S Africa)	Pumps	n/a -	licease bought

Ebner considers withdrawing court actions against UBS

Mr Martin Ebner, the Swiss financier whose BK Vision investment fund is the largest shareholder in Union Bank of Switzerland, is considering withdrawing his civil court actions against the bank.

Mr Ebner confirmed he was considering withdrawing the injunction and lawsuits, which were launched against the board's resolution, passed at a shareholders' meeting in November 1994 to convert its registered shares into bearer

Such a move would lead immediately to the unification of UBS's share structure in that all shares would be bearer shares with equal voting

Swiss newspapers reported at the weekend that Mr Ebner was confident he had the support of holders of a majority of the UBS capital for his plans to make the bank more profitable. UBS bearer shares have risen sharply in the past two weeks. Analysts believe sev-

eral international investors have bought shares in anticipation of big gains as the protracted confrontstion with Mr Ebner ends and the bank sharpens its performance. Mr Ebner described reports

that he and his allies had a majority of UBS capital as "exaggerated", but acknowledged BZ had been acquiring UBS shares on behalf of clients. How those shares were voted was a matter for the owners, he added.

The BZ group now held about 10 per cent of UBS capi-tal, most of it in registered shares. Under present voting restrictions, it had voting rights for only 5 per cent.

UBS said the possibility of an end to the lawsuits showed Mr Ebner was facing increasing pressure from investors disappointed with the poor performance of the bank's shares since the suits were launched in December 1994. "He should bave withdrawn the challenges long ago," it said.

Mr Ebner also said at a press conference on Friday that he was considering putting up a candidate for UBS chairman to oppose Mr Robert Studer, its chief executive and UBS board nominee, at the annual shareholders' meeting on April 16. He said he was concerned to

ensure that an alternative candidata was available in case the UBS board withdrew Mi Studer'a nomination in the event of criminal charges being brought against him.

Tha Zurich prosecutor is investigating criminal charges filed by BK Vision last March against Mr Studer and other UBS executives for allegedly wilfully-damaging the bank through own share purchases on unfavourable terms.

The charges arose out of share purchases by UBS ahead of the November 1994 shareholders' meeting and cannot be

withdrawn by Mr Ehner.
"We would be very unlikely
to field a competitor to Mr Studer if he remains in the running," Mr Ebner said. UBS said none of its executives had done anything illegal and the board was standing by Mr Studer.

Fleet Financial Group

Borland lower despite

third quarter recovery

Borland international, the US previous \$49.7m.

NOTICE OF FULL REDEMPTION FLEET FINANCIAL GROUP, INC.

(Successor to Shawaist National Corporation and Shawaist Corporation)
NOTICE IS HEREBY GIVEN, pursuant to the Indenture dated as of
February 1, 1985, between Shawnist Corporation ("SC") and Citibank,
N.A., as Trustee, as supplemented by a First Supplemental Indenture
dated as of August 1, 1994 between 5C and Shawnist National
Corporation ("SNC") and a Second Supplemental Indenture dated as of
November 30, 1995 between 5NC and Rect Financial Group, inc. (the
"Company") relating to the Company's Floating Rate Subordinated
Notes Due 1997 (the "Notes"), that the Company has elected to
exercise its option to redeem all the outstanding Notes on February 22,
1996 (the "Redemption Date") at the redemption price of 100% of the
principal amount thereof, together with accrued interest from
November 22, 1995 to the Redemption Date in the amount of \$159.72
for each \$10.000 principal amount (the "Redemption Price"). The
Trustee has received the appropriate certificate under the Indenture
stating that the conditions precedent to such redemption have
occurred.

Payment of the Redemption Price, which will aggregate \$159.72 for each \$10.000 principal amount of Notes, will be made on and after the demption Date UPON PRESENTATION AND SURRENDER of the Notes (together with all appurcement coupons maturing May 1996 (#45) and subsequent thereto in the case of Bearer Notes) at an appropriate office of one of the paying agents listed below

On and after the Redemption Date, the Redemption Price will become due and payable upon each Note and Interest thereon shall cease to accrue. The Notes will no longer be outstanding after the Redemption

If any Bearer Note surrendered for redemption is not accompanied by all appurcenant coupons maturing May 1996 (#45) and subsequent thereto, the amount of any such missing coupons will be deducted from the Redemption Price otherwise payable. No payment with respect to any Bearer Note will be made at the corporate trust office of the Trustee or any other paying agency maintained by the Company in the United States or by cheque mailed to an address in the United States or by transfer to an account in the United States.

Poyng Agents. The paying agents to which Bearer Notes and Registered Notes should be surrendered for redemption are listed below. Any question with respect to the procedures for redemption should be directed to an appropriate agent.

Neue Mairzer Strasse 40/42 D-6000 Frankfurd/Main 1 ederal Republic of Germany Citibank, N.A. Citabank House 336 Strand or WC2R 1HB Brytand

Crubanil, N.A. ard General Jacques 263G 58 8c 8-1050 Brussels

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of the votes present or represented.

By order of the Board of Okrector

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Crubank (Lunembourg) S.A. plevand Grande-Duchesse Charlotte U-1330

vesument Bank (Sw Bahnofstrasse 63 PO. Box 244 CH-BG21 Zunch, Swezerland

January 22, 1996, London By: Crobank, N.A. (Issuer Services), Agent Bank, CITIBANCO

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1. 1950 Limembourg
RC Limembourg 9 23 663
NOTICE OF THE ANNUAL GENERAL MEETING OF SHAREHOLDERS

ery on Entimenty 2, 1996 at 11 30 am with the talk wind a period

Reports of the Charman of the Board of Emporture and invincement Audron

Approval of the Statement of Not Access as at September 30, 1995, and the Statement Operations for the year ended Suprember 76, 1995.

Swenerge of the Directors and the independent Auction in receive of the canying out of this duties during the trianglet year ended Section 39, 1995.

Re-discription of the Independent Audior to serve unturne heat Annual General Month

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rated in the Kinga on of 5 or - a coath limited liability (U.S.\$75,000,000 Floating Rate Notes Due 1997

twith the right to Jahandanze). ice is hereby given that the interest payable on the relevant interest nent Date. February 16, 1996 for the period August 16, 1995 to usery 16, 1996 against Coupon No. 21 in respect of U.S.\$5,000 nominal is Notes will be U.S.\$150.72 and in respect of U.S.\$250,000 nominal is Notes will be U.S.\$754.00. of the Notes will be U.S.\$7.536.00.

lanuary 22, 1996, London By: Cobank, N.A. (Issuer Services). Agent Bank CITIBANCO

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Interest payable on 18 April

1996 will amount to ≤158.50

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(America), Inc

incorporated with limited liabels; in the State of New York, U.S.A.;

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6.0625 per cent per annum.

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JUPITER TYNDALL GLOBAL FUND, SICAV Registered Office: Luxembourg, 13 rue Goethe R.C. Luxembourg B 34 593 DIVIDEND NOTICE

The Directors resolved on 15 December 1995 to pay a dividend of 2 pence per share to shareholders of the High Yield Portfolio on record on 28 December 1995 with an ex-dividend date of 29 December 1995 and a payment date of 8 January 1996. By order of the Board

ECU 2,000,000,000 **Euro Medium Term Note Euro Depositary Receipt Programme** Lavoro Bank Overseas N.V. Banca Nazionale del Lavoro S.p.A. Series Nº 3 Banca Nazionale del Lavoro S.p.A. Hong Kong Branch -

US\$ 100,000,000 Subordinated Floating Rate Depositary Receipts due 1999 In accordance with the terms of the Series N° 3 Depositary Receipts (the "Receipts") described in the Pricing Supplement dated as of July 15, 1994, notice is hereby given that for the Interest Period from January 22, 1996 to April 22, 1996 the Receipts will carry an

Interest Rate of 5.92188 % per annum. The Interest Amount payable on the relevant Interest Payment Date, April 22, 1996 will be US\$ 11.98 per

Receipt of US\$ 800, US\$ 119.75

per Receipt of US\$ 8,000 and US\$ 1,197.54 per Receipt of US\$ 80,000.

tary Receipt.



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Cassa di Rispannio delle Provincie Lombarde S.p.A. **Grand Cayman Branch**

US\$ 150,000,000 Floating Rate Depositary Receipts due 1999

In accordance with the Conditions of the Receipts, notice is hereby given that for the Interest Period from January 19, 1996 to July 19, 1996 the Depositary Receipts will carry an Interest Rate of 5.68359 % per annum.

Date, July 19, 1996 will be US\$ 287.34 per US\$ 10,000 principal amount of Depositary Receipt and US\$ 7,183.43 per US\$ 250,000 Krediethank Luxembourg ornoipal amount of Depos-

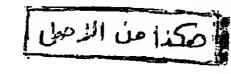
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Fokker looks for a miracle to keep it in the air

Ronald van de Krol reports on the predicament of the ailing Dutch aircraft manufacturer

f Daimler-Benz of Germany shuts off its financial support to Fokker today, the ailing Dutch aircraft maker's first priority will be to avoid being pushed immediately into bankruptcy or even an interim step, such as protection from

A breathing space of several weeks or months might enabla Fokker to save parts of the company if it needs to continue on its own without the financial resources of Daimler-Benz, its controlling shareholder

However, to do this, Fokker would probably have to rely on interim financing from the Dutch government. Some politicians have calculated this would cost the taxpayer some Fl 4m (\$2.4m) a day.

A commitment to such temporary support may emerge from a meeting scheduled this afternoon between Mr Hans Wijers, the minister of economic affairs, and the Dutch parliament's standing commit-tee on economic affairs.

It-was the obvious reluctance by the government, a minority shareholder, and Daimler-Benz to pump large amounts of new money into Fokker that precipitated a meeting today of Daimler Benz's supervisory board in

The Dutch may try to prop up Fokker for a short time, but it would be unlikely to be for long because of the cost.

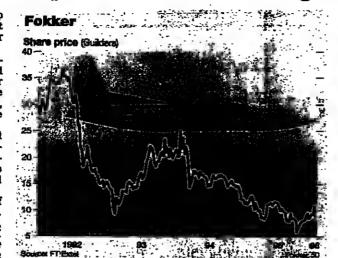
Fokker's prospects for survival, perhaps in slimmed down form, are far bleaker than they were for Daf, the Datch truck manufacturer, which collapsed under the weight of its debts in 1993.

After the original Daf filed for administrative receivership, a smaller successor company, Daf Trucks, was set up with the help of the Dutch and Belgian aothorities.

Assets from the defunct Daf were bought by the new Daf. With a reduced workforce, without its former UK operations and with a balance sheet largely free of debt, the new company was quickly able to turn a profit and survive. Fokker's predicament is different. It does not have heavy hank debt and relies instead on

Nor could it pare its workforce radically, as the number of employees has already been halved since the early 1990s. With the aviation market harely starting to emerge from a long recession, there is also no guarantee that a "new" Fokker would survive in such

the financial commitment of



a capital-intensive industry.
Its future would also be highly dependent on the level of the dollar, the international currency of the aviation industry. The guilder's etrength ainst the dollar has made it impossible for Fokker to sell aircraft assembled in the Netherlands at a profit in

recent years. Two, Fokker operations which might survive would be Fokker Special Products - a 70-seater and 100-seater jet operations. The Canadian company's subsidiary in Northern Ireland, Short Brothers, produces wings for these aircraft. However, Bombardier has said it had no plans to bid for Fok-

Mr Richard Brakenhoff, transport analyst at MeesPierson, the Amsterdam-based merchant bank, is sceptical that the Canadians may be interested. "Fokker is a guilder-based company, so for currency reasons alone it would be very difficult," he said.

Equally unlikely is the offsought "European solution", whereby Fokker and Daimler Benz would join up in regional aircraft with Europe's other three manufacturers, British Aerospace, France's Aérospa-

tiale and Alema of Italy.
This vision has proved elu-sive in the past, and Fokker's competitors will not now be interested in saving a rival pro-

However, even abandoning Fokker would be expensive both for the government and for Daimler. The government would stand to lose Filbn in credits and loans extended in the past, plus the unemploy-ment benefits it would have to pay, at least temporarily, to its

7,800 remaining employees. Daimler-Benz, meanwhile, would lose its initial F1686m investment in Fokker shares in 1993, F1900m in capital injec-tions since 1993, and its financial guarantees given to Fokker since the summer, which are believed to total around

F) 1hn. Walking away from Fokker would also create contingent habilities for the future flowing from the company's aircraft leasing contracts.

If the company went bank-rupt, the residual value of the aircraft would fall, but the leasing commitments would remain intact

Fokker admitted last week it was examining "all scenarios" though it continued to hold out the possibility of a "miracle" emerging from the crucial Daimler meeting.
It knows that protection

from creditors and other steps towards a possible bankruptcy would undermine its credibility, making it extremely difficult for a resurrected Fokker to win back old customers.

"In our business, relations with customers are practically like marriages. They last 20 years or more and are based on trust and continuity," Fokker

NEWS DIGEST

German loan role for foreign banks

Foreign banks will shortly be given a greater role in helping set conditions for German government loans, said Mr Johann Wilhelm Gaddum, deputy president of the Bundesbank Several big foreign banks would be included in the inner committee which advises on the terms of government loans. This committee, with 19 members and only one foreign bank (Citibank), is formed from the federal bond consortium of 98 banks (of which 48 are foreign).

Mr Gaddum said the move would take account of the increasing international significance of German government paper. However, he rejected calls for a change in the central bank's opposition to government issuance of short-term debt. Such arguments have also come from within the Bunde Some banks whose role in the bond consortium had diminished would leave the inner committee to make way for the foreign banks, which Mr Gaddum did not identify. He said the Bundesbank did not intend to drop the consortium system in favour of a primary dealer system, as used in the US.

Cariplo moves nearer sale

The flotation of Cariplo, Italy's largest savings bank, has moved a step closer with the announcement that Goldman Sachs, the US investment bank, is to advise on obtaining a tock market listing this year. The appointment, annou by the Cassa di Risparmio delle Provincie Lombarde, the charitable foundation which wholly owns Cariplo, comes from a short-list of three, which also included Morgan Stanley of the US and UBS of Switzerland. Goldman Sachs has acted as global co-ordinator in two other Italian flotations, the privatisation of the bank Credito Italiano (Credit) and Ina. the insurer. The foundation reiterated its intention to give up

The initiative follows an attempt at a more limited flotation and an increase in capital which was shelved when stock market conditions proved unfavourable. The flotation of Cariplo, with net assets of over L10,000hn (\$6.3hn), may include a private placement as well as a public offer and may be accompanied by a capital increase. John Simkins, Milan

French bancassurance venture

Société Générale, one of France's largest banks, is to team up with Commercial Union of the UK and Assurances Générales de France to sell non-life insurance policies from the start of 1997. The move is the latest step in the trend towards "bancassurance" by which banks and insurers form links to

Société Générale will hold 60 per cent of a newly-created company to manage the service, with the remaining stake split equally between CU and AGF, which hold 3 per cent and 2.7 per cent investments respectively in the French bank.

■ Crédit Foncier de France, the specialist property bank, has agreed to consult with all its employees before going ahead with plans aimed at reducing its costs by more than 30 per cent. The move follows disruption by unions on Friday, during which Mr Jean-Claude Colli, the governor, and other directors were held in the bank's offices until late into the evening. The company has suffered a sharp fall in its share price and incurred growing borrowing costs. Last week Calsse des Dépôts et des Consignations, the state-backed financial institution, agreed a line of credit of up to FFr25bn (\$4.95bn). secured against some of its assets, to help the bank for 14

BPI in offer for competitor

Banco Portugues Investimento, Portugal's biggest investment bank, has made a public offer of Es132bn (\$363m) for 100 per cent of Banco Fomento e Exterior, one

of its main competitors. . The acquisition, Portugal's third big bank takeover bid in less than a year, would more than double BPTs total assets to more than Es2,800bn, making it the country's fourth larg-

est banking group. BPI, currently the sixth biggest group, is offering Es1,650 a share, 20.6 per cent more than BFE's average share price over the past year. BFE shares closed at Es1,583 on Friday.

The bid is the latest move in the consolidation of Portuguese banks. The leading groups are seeking to increase market share and out operating costs in response to tougher competition.

Because the state controls 80.5 per cent of BFE, the offer amounts to a privatisation proposal and its success depends on a favourable decision from

the new Socialist government. The Socialists were severely critical of the previous centreright government's handling of two successful takeover bids made for two partially-privatised banks last year. The acquisitions made Banco

Comercial Portugues and

Banco Totta e Açores the country's second and third largest financial groups respectively. Analysts raised doubts yesterday over the legality of the government privatising its majority stake in BFE, the fifth largest bank, in response to a takeover bid. BCP and BTA's

minority-holdings.

Mr Artur Santos Silva, BPI president, said the offer sought to overcome potential difficulover minority shareholders' rights and dividend payments - important issnes

year's bids. He said BPI would consider the bid successful if it acquired 80 per cent of BFE, which focuses on corporate and trade finance. However, it was prepered to buy 100 per cent so that shareholders who paid Es1,200-Es1,300 a share when 19.5 per cent of BFE was privatised in December 1994 would have the opportunity to sell at the offer price.

raised by opponents of last

BPI will also pay 1995 dividends of up to Es90 a share to BFE shareholders who take up the offer, he said. BPI may make a capital increase of bids 'hivolved privatising "Eslubn Eslubn through a vet to respond to either move. rights issue.

Benckiser to 'outbid' L'Oréal

By Richard Tomkins in New York

Benckiser, the German consumer products group fighting a takeover battle for Maybelline, the US cosmetics company, says it is prepared to outbid last week's increased offer from France's L'Oréal, valuing Maybelline at \$567m. However, it has not said how much it will pay; and it has

projects such as the repair

of Patriot guided weapon systems in Europe - and Fok-

ker Aircraft Services, an air-

craft maintenance company.

But the core of Fokker's

business, construction of three

regional aircraft, the Fokker

50, 70 and 100, would be most

vulnerable to collapse.

Bombardier of Canada,

which makes business jets and

50-seater aircraft, has been

cited as having a possible interest in bidding for Fokker's

made the unusual suggestion that Maybelline should invite L'Oréal and Benckiser "to submit their best and final offer in a final round of bidding". Benckiser's latest position was set out in a letter Maybelline made public on Friday. It followed the increased bid from L'Oréal the day before of \$41 a share cash for Maybelline's

-As before, Benckiser's latest

letter appeared to stress its reluctance to fight a bid hattle. It said any higher offer was subject to the condition that it would not "simply be used to induce L'Oréal to match or bet-

ter that offer". Benckiser also said a higher offer would be subject to the introduction of a stockholder rights plan that would probibit L'Oréal from accumulating more Maybelline stock at a price lower than that offeredby Benckiser.

In spite of the conditions and Benckiser's unusual stance, the continuing increase in Maybelline's share price indicates that Wall Street regards the tussie as a straightforward takeover battle. On Friday. Maybelline's share price put on another \$2% to close at \$44%. common stock. Maybelline has

seeking to expand in the world'e biggest cosmetics mar-

L'Oréal, however, has a substantial North American presence through its US subsidiary Cosmair, which it took over nearly two years ago. This has made it the fourth largest cosmetics company in the US, so its hid for Maybelline could face anti-trust problems.

Benckiser, meanwhile, faces a different obstacle. About 30 per cent of Maybelline's stock is owned by Wasserstein Per-ella, the New York investment house. Before Benckiser appeared on the scene, Wasserstein Perella entered a binding commitment to tender this stake to L'Oréal.

Wasserstein Perella can only Maybelline, the second biggest cosmetics company in the
eal agrees or, the deal is
US, would make a valuable blocked on anti-prost grounds.

FT GUIDE TO WORLD CURRENCIES the latest evaluable cause of exchange grounded) against four key currencies on Friday, January 19, 1986, in some cause the sale is nominal. Market rates are the average of buying and sealing rates except where they are shown to be otherwise. It some cause transfer these been calculated from those of foreign currencies to which these are their. 2 ETG 32,4659 0,9494 1,2710 1806,65 2,2203 24,8658 0,8280 1,4279 2,4009 145,206 0,9494 22,1344 0.6761 0.9051 1352,27 1.5811 17.7079 0,4476 1.7169 1.7169 1.7096 0.6761 51,830 1,5105 2,9221 3021,00 3,5323 36,500 1 2,272,016 1,5105 1,5105 4,78254 4014,16 0,87320 7094,07m 332,310 Adjanelisi Adjanelisi Adjanelisi Abanelisi Andorisi Andorisi Antolisi Balanelisi Balan 4750,00 96,6900 53,4043 8,0488 134,570 9692,00 2,7009 0,9996 402,000 1,7900 1,3567 1440,00 162,940 28.6995 15.2410 11.5778 211.568 12.8466 6.3222 5.2272 84.7025 18,0394 9,5799 7,5402 132,594 19,0000 10,0900 7,7311 140,086 2,4519 3,4133 1796,82 0,4305 3175,46 148,749 88.5400 86.8860 2295.50 8000.00 0.9109 2900.00 0.6360 3.1236 1684.85 63,1759 34,0602 2172,80 2948,33 0,2952 2753,36 0,8058 2,9657 150A,82 44.9899 24.798 1547.85 2029.40 0.2102 1860.78 0.4514 2.1120 1071.84 innelic Kronal Indian Pupasi (Plapiah) (Plani (Innel Dinar) (Innel Dinar) (Plani (Shakai) (Lini 100,509 64,2194 9458,78 4681,50u 0,45960 4380,45m 0,9838 4,7161 2394,07 1.5105 0.5095 188.163 51.1753 3.0301 1899.30 45.8739 3.0210 762.540 1.8105 54.2194 1.4600 1.4 0.5494 0.3579 118_75 38_4594 1,9008 11550.5 28_5348 7,8009 479.507 0.944 4,9007 2,4785 0.9283 1,350 0.9283 1,550 0.9283 1, 0.3770 124.570 40.5000 2.0119 12176.0 2.0000 504.630 1,8255 0,4476 1,8255 3,4132 1071,84 1187,03 2,5359 341,832 2,5359 541,832 7,5359 0,9615 20,373 2,525 1777,47 2,4520 84,225 84,225 4,0784 4,0784 7,8254 2594,07 2694,07 2694,07 2694,07 1,745 19 1,745 1,74 2,7000 0,8520 2,7000 5,0485 2,7000 1594,85 1758,90 3,7508 504,850 1,4220 30,1350 1,4220 30,1350 1,4244 2620,00 3,9454 1,24570 124,570 2.5535 0.8266 2.5536 4.7681 2.9696 1504.82 1504.82 479.907 479.907 1.3651 25.515 25.515 25.515 24.5754 3.4616 3.467.54 3.467.54 35,8660 4,9500 2,8209 0,9725 1,4220 73,0300 504,830 5,7626 256,840 55,8866 169,094 1,0710 . 37.0000 105.825 0.7090 25.0189 71.2137 0.4784 61.5518 53.7659 1.2900 2.0418 746.854 0.2846 64,8400 56,8500 1,3587 2,1500 788,900 0,3000 97.9400 95.5000 2.0593 9.2475 1195.14 0.4532 45.8404 36.5028 0.9187 1,4587 334.077 0.2028 2800.00 524.87 1.8944 124.570 6.2872 504.830 504.830 504.830 191.780 504.830 191.780 504.830 192.110 271.780 5.7203 192.71780 271.780 5.7203 192.71780 192.7 2183.72 473.307 1.2354 118.272 78.7752 0.7659 478.307 478.307 478.307 478.307 478.307 478.307 478.307 18.055 478.307 18.055 19.6 3474.15 792.540 2.0009 186.163 125.326 1.2510 792.540 792.540 792.540 289.654 792.540 4.0764 241.660 241.660 241.660 241.660 241.660 241.660 241.660 241.660 13.250 1555.10
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The Trustees of the Worldinvest income Fund are pleased to announce a final US\$7.50 per share distribution to Shareholders in respect of the half-year period from June 29, 1995 to December 28, 1995. For holders of bearer units with accompanying coupons. Coupon Number 38, and any previously unpresented coupons, may be presented for payment on or after February 1, 1996 to: For holders of registered units, the dividend will be distributed in accordance with individual mandating instructions in place. Payments will be made subject to any applicable fiscal or other regulations within fourteen days of such presentation.

DECLARATION OF DIVIDEND No. 6

DECLARATION OF DIVIDEND No. 38

BankAmerica Trust Company (Jersey) Limited,

JERSEY, JE4 8QE, Channel Islands

PO Box 120, Union House, Union Street, St. Helier,

The Trustees of the WorldInvest Excelle Fund are pleased to announce a final £0.30 per share distribution to Shareholders of the Global Fixed Income Sub-fund in respect of the half-year period from June 27, 1995 to December 28, 1995.

The dividend will be distributed in accordance with individual mandating instructions in place and will be paid on February 1, 1996.

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Guaranteed Floating Rate Notes Due 1996 For the six months 19th January, 1996 to 19th July, 1996 the Notes will carry an Interest Rate of 5, 25% per annum and Coupon Amount of U.S. \$106.17 per U.S. \$4,000 Note, payable on 19th July, 1996. Agent Bank

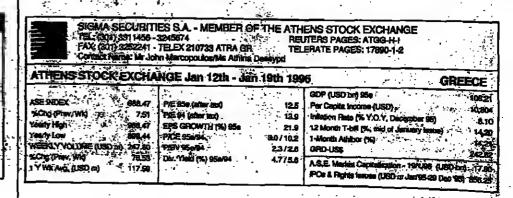
Orix Ireland Finance PLC Yen 10,000,000,000 Fixed and Floating Rate, Guaranteed Notes 1996 The notes will bear interest 110 takes an open unerset at 0.77341% per andward from 22 January 1996 to to 22 April 1996, Interest payable on 22 April 1996 will amount to Yen 19,551 per Yen 10,000,000 note. Agent: Morgan Guaranty
Trust Company JPMorgan.

NOTICE TO SHAREHOLDERS ♦ KOBE STEEL LTD. The English version of the interim report

Kobe Steel Europe Ltd. Alton House, 174/177 High Hollorn, London WCIV 7AA Tel: (0171) 836-1225/Fee: (0171) 240-7460

for the half year ended 30th September 1995

has been published and may be obtained from:





FINANCIAL TIMES MARKETS

THIS WEEK

Global Investor / Peter Martin

Signs from two frontiers in the US





Innged-for consecutive quarters of growth in earnings per share is just the latest piece of bad news. Indeed, by the standards of the rest of the sector, Wal-Mart's performance scarely counts as bad news at all. Sam. Walton's discount chain has, after all, achieved 99 quarters of growing earnings, and fell short of its century by only a

few cents. Still, the Wal-Mart story illustrates the gaps in the various explanations of the retailing phenomenon. For Wal-Mart is itself supposed to be the agent of change - in costs, logistics, and competitive aggression - which is helping to transform retailing.

If it too is suffering from diminished expectations at a time when the US economy remains healthy there is clearly something else at work. Is it the structural over-supply of retailing services? Con-sumer malaise? A shift at the margin towards the consumption of services rather than

goods? A sign of the way baby-

boomers are re-orienting their

spending priorities as they face

US retailing? Mart would fail to reach its

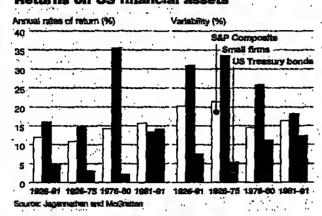
the inevitability of retirement? Or a reflection of an industry been systematically destroyed by year-round discounting? The answer matters to international as well as US investors since in this industry what bappens in America has

shaped developments in the rest of the world - think of the invention of the department store, supermarket and ont-oftown shopping mall. The string of bad news in US

retailing suggests that, whatever the cause, the sector is in a destructive phase from which some new pattern of healthy growth will emerge. Until last week, Wal-Mart seemed to be a central part of that future; it probably still is. But the shape of that future looks more uncertain than it did a week

BETA REVIVED Here is the news from the frontier where financial theory meets investment manage-

ment: Beta is not dead Beta - the way a company's share price tends to move relative to the market as a whole - Returns on US financial assets

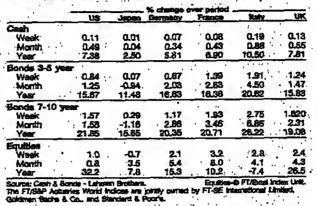


is one of the principal tools investment managers derived from the revolution in financial theory over the past three decades. In recent years, however, the combination of practical shortcomings and theoretical criticism led academics and financial journalists alike to

But a new wave of academic research - conveniently sum-marised in an article in the

Minneapolis Federal Reserve Bank's Quarterly Review and in A Random Walk Down Wall St, the latest edition of Professor Burton Malkiel's indispensable guide to financial theory in plain English - has come to Beta's rescue. Since the 1950s, academics

have put statistical flesh on the long-held belief that the return on an investment reflects its inherent riskiness.



Though this might appear a truism, its sheer scale still has the power to surprise. As the chart shows, using US data, small stocks have done much better than large ones both over the whole period 1926-91 and over most of the sub-periods. The chance of a disappointment in any one year is, however, much higher for the small-stock investor than for a hig-company one.

Less than two

weeks ago,

Russian dep-

nty prime min-

dropped in on

economists at

the London

School of Economics to reas-

were there for the duration.

the stabilisation programme

bais was sacked were not

said. "It must come to an end

and then the policies of eco-

His words will have struck a chord with the average Rus-

sian, whose real wages are

now 15 per cent lower than they were in January 1992, the start of the first serious stabl-

lisation effort. But, as the

chart shows, anti-inflation pol-icies have only been "eternal" because they have repeatedly

been abandoned just as they

nomic growth can begin."

was equally misplaced.

The Capital Asset Pricing Model, the theory which gave rise to Beta, peered more closely at what exactly the riskiness was that investors were being asked to assume for their higher reward.

And the academic's statistical research showed that what mattered was not a company's total risk but that portion inherent in its relationship with all the other companies making up the stock market. A company was expected to perform exactly in line with the market - a stock with a Beta of one, in the jargon had a low risk in investors' eyes and would therefore be likely to generate only a low return. Similarly, a stock with a high Beta would be relatively risky and would require a bigher return to compensate.

Through the 1970s and 1980s. statistical studies seemed to show that Beta "worked".

In the early 1990s, however, a new wave of academic studies bas suggested that a stock's Beta may not, after all, provide much explanatory help. One such study argued that a company's size and price to book ratio - the relationship between its hook value per share and the price the stock market puts on those assets had a closer link with subse-

quent performance than Beta. In general, the study said. small stocks outperformed larger ones, and stocks where the market initially set a low value on each dollar of assets outperformed thosevalued

more highly. The latest thinking restores some faith in Beta, but does so in a way which restricts its practical usefulness. In measuring Beta, what matters is a stock's relationship not just to other financial assets (such as the rest of the securities markets) but also to other potential homes for funds, such as "human capital" or self-improvement. Adjusted this way. Beta is a better predictor of performance than

firm size or price to book.

A second conclusion of the latest research is that though the theory works in the long run, it may not bold for any individual period of time, when other factors may temporarily predominate.

All this greatly hampers the use of Beta as a practical investment management tool. But one interesting conclusion emerges even from the hostile research; in a bear market high-Beta stocks do indeed justify their risky status, by falling more than low-Beta ones. In bull markets, like the present, that simple truth tends to be neglected, to be rediscovered painfully each time.
The CAPM Debate by Ravi

Jagarmathan and Ellen R. McGrattan in Federal Reserve Bank of Minneapolis Quarterly Revue Fall 1995. A Random Walk Down Wall St. by Burton G. Malkiel. W.W. Norton New York and London.

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COMMODITIES

Richard Mooney

Coffee strategy under debate

Lloyds Bank Interest Rates for

Business Customers

INTEEST EARNING ACCOUNTS

These rates of interest apply with effect from 22 January 1996

Lloyds Bank

THE THOROUGHBRED BANK.

Chents Call

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£ 100,000+

£ 10.000-

£ 2500+

Rand

A (and Standard)

concerned at the recent slide in world prices, will consider action to huoy the market at a meeting in London this week. Representatives of members

of the Association of Coffee Producing Countries are in London for the 5-day producer/ consumer International Coffee Organisation meeting that starts today.

They will hold their own

meeting tomorrow to debate the temporary suspension of export registrations, along

Effective from 18 January 1996

Business Loan Standard and Farm Business Loan Standard

Business Loan Preferential and Farm Business Loan Preferential

Small Rusiness Loan Standard

The AFR does not take into account my additional charges (og acca recurses chargen 'popully fees) which may be applicable

Small Rusiness Loan and Farm Small Business Loan

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Business Reserve Account

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£ 25.000 kg

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Below Cin,000

£ 50,000

£ 10,000+

Business Call Account

We are tired of the wild price finctuations on world markets and the way speculators move in and out of it." one

producer representative told the Reuters news agency last week. "At the ACPC meeting we will begin debating a series of new initiatives which aim to give us more control over prices," said another.

Prices quadrupied in 1994

6.25% per admire

Fer Month Eqv. Angual Rate %

Gross Rate % Gross CAR %

12.96 (APR 13.7)

11.76 (APR 12.4)*

5.22 4.91

4.49

Gross CAR %

3.85

Gross CAR &

LLOYDS BANK BASE RATE

LOANS

1.08

4.40

Gross Rate %

Gross Rate %

3.20

however, with the New York Arabica near-month futures price just above 100 cents a pound, despite an ACPC programme designed to curb suppiy.

Producers say ACPC talks will focus on new initiatives and how, if implemented, they would fit in with the current hid to restrict world exports to 60.4m bags (60kg each) in the year to June. "We will propose that export registrations be when frost then drought hit 'closed on a short-term basis Brazilian growing areas. They when prices of arabica dip with 1996-97 production man-are now languishing again, below 120.00 cents a pound and the 21st century

OVERDRAFTS

MORTGAGES

Half Yearly Option

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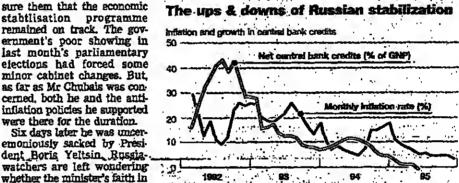
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robusta prices dip below 110.00 cents," said one delegate. • Other events this week include the publication of the International Primary Aluminhum Institute's production data for November, and a 3-day confectionery industry event in Cologue entitled "How 'Sweet' is the Future?". Organised by the International Office of Cocoa, Chocolate and Sugar Confectionery, the event will give a global view of the opportunities and challenges facing the industry as it moves into

Economics Notebook

Russia

The ups & downs of Russian stabilization



Yeltsin tries to inject a "feel-good" factor into the cam-Certainly, the remarks of Mr Alexander Livshits - the President's chief economic adviser - on the day Mr Chupaign. On balance, however, full-scale reversal of economic encouraging. "We cannot eter-nally conduct the policy of financial stabilisation", he stabilisation.

This is because there are several checks on inflationary spending which were previ-

ously lacking. First is the existence of an approved hudget for 1996, which was passed last month by both the Dums and Federation Council. This was the first time in the history of independent Russia that a budget bas been enacted before the start of the finan-

cial year.
It limits this year's budget deficit to R88.6 trillion, or 3.85 per cent of forecast GDP.

were beginning in bear fruit.

Arguably, the Russian econ-In contrast to previous years, the President is now omy is now at just such a legally obliged to to authorise turning point. Sticking to the tough monetary and fiscal tar-gets agreed with the Interna-tional Monetary Fund last spring has reduced inflation to any additional spending. Even more important, the Central Bank is no longer permitted to print money to pay for it. The government will instead have a monthly rate of 3.2 per cent. With Mr Chubais out of the to borrow the money on the fast-developing treasury bond market. This kind of extra spending would be far less inflationary than the pure government and a Presidential election just five months away, observers are expecting a loosening of policy as Mr

monetary financing used in past public spending sprees.

The chances are that none

of these formal constraints would be sufficient to prevent a determined President from resorting to the printing press. But a recent paper hy Mr Peter Boone at LSE brings out a deeper reason for thinking a reversal less likely - that it no longer pays.

Mr Boone argues that Rus-

sia did not stabilise its economy over the 1992-4 period because many officials and key interest groups dld extremely well out of the economic chaos. Russia differed from other ex-communist countries in the sheer amount of wealth and income that was to be redistributed after the breakdown of the old system. As long as this was up for grabs, the goal of low inflation took second place to rent-seek-

ing and corruption.
"Seigniorage", the revenues
the government implicitly earns when it spends money that cost it almost nothing to print, provides the clearest example of Mr Boone's argument. In the middle of 1992, as the graph shows, net credit

issues by the central bank cent of GDP. in a normally functioning

economy, printing money on a fraction of this scale would have speit instantaneous hyperinflation, so that printing the money would rapidly become a self-defeating exercise. In 1992, bowever, the inflexibility of the old Russian financial system and the fact that people were not expecting high inflation gave the government an astounding free

Over the course of the year central bank and ministry officials were able to distribute "free" money to public enterprises and others to the tune of nearly one third of GDP.

payment systems and a col lapse in confidence in the rouble have steadily put paid to this form of government largesse. People found ways to avoid holding roubles, by instead, so that credit emissions fed more rapidly into higher prices. The fact that it could no longer print money with impunity was finally brought home to the govern ment in 1994, when a relax ation of credit policy in the summer triggered a 27 per cent ronbie collapse a few

months later. Of course, the discovery that overspending no longer pays is no guarantee that it won't take place. History is full of examples of governments pursuing self-defeating and economically disastrous policies to win elections. The point is, rather, that, in the the risks involved in pursuing irresponsible economic policy were unusually low, while the gains, for those in the right place in the right time, were enormous. Precisely the

sion economic reforms", CEP working paper (forthcoming).

Stephanie Flanders

Gross Rate % Gross CAR & Gross Rate % Gross CAR & 0.25 0.25 0.25 FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuative World Indices are owned by The Financial Times Ltd., Goldman, Sachs & Co, and Standard & Poor's. The Indices are compiled by The Financial Times and Goldman Sechs in conjunction with the Indices.

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Base values: Dec 31, 1966 = 105: Fritand: Dec 31, 1967 = 115.037 (ES 5 index), 90.379 (Pound Spring) and 94.94 (Local); Nordic Dec 30, 1968 = 199.55 (US 5 index), 114.45 (Pound Standard & Poofs.
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EQUITY MARKETS: This Week

Focus on politics and profit reports

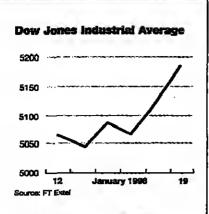
NEW YORK

Politics and profits will be the dominant factors on the US equity

Although the government has oow begun to put out official economic data many investors are more likely to coocern themselves with earnings reports due to be released in coming weeks and the State of the Union Address to be delivered by Presideot

Bill Clinton on Tuesday. Mr Clintoo's address will be looked to this year for signs of whether the Democratic presideot will be able to strike a deal with Republicans in Congress to balance the federal hudget. More important, however, will be the next round of fourth-quarter earnings

Stocks had fallen in the first few weeks of this year as investors grew concerned that earnings reports would hold mostly negative surprises, but the market gathered strength last week as



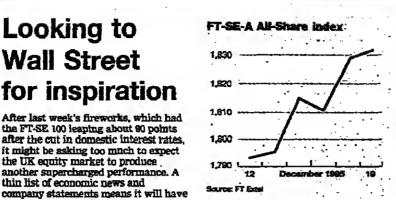
Lisa Bransten

LONDON

that proved oot to be the case. This week, investors will get a chance to look at the results from industry leaders such as Exxon, UAL - the parent of United Airlines - Johnson & Johnson, Du Poot and Coca-Cola. In terms of data, the most important

eleases of the week will probably be the oumbers on December industrial production and capacity otilisation set to be released oo Wednesday. Economists are looking for a 0.3 per

cent rise in industrial production and Worries about a snap general election expect capacity ntilisation to have remained steady at 83.1 per cent. might also hurry plans for further hids. Unichem's agreed offer for Lloyds



Chemist last week might be the first of many in coming mooths. Investors will have ooted, however that the market was unhappy with suggestions that the interest rate cut was politically motivated and even more concerned by reports that the Conservative party hierarchy might be

Steve Thompson

assembling a firing squad for Mr Major. Nevertheless, market strategists insist the chancellor was right not to lift interest rates early last year, when the Bank of England was calling for such a move, and will be proved right in his latest decision.

HONG KONG

writes Louise Lucas.

The market is forecast to

week, although the strong

continue pushing mwards this

gains racked up since the start

of this year mean stocks will

be vulnerable to profit-taking.

On Friday tha Hang Seng Index closed at a 23-month

high, fuelled by gains on Wall

Street and interest rate cuts in Europe. The key factor

underpinning the latest rally

week, and this flow of overseas

funds will keep prices buoyed.

liquidity - was strong all

covered warrants, issues of

occurrence and have helped

boost the price of targeted

which have been a daily

International offerings

Indonesia undeterred by Telkom issue experience

ADS (S)

Mention last November'a initial public offering of PT Telkom, the domestic telecoms company, to Indonesian government officials and you are met with awkward, if not At the last minute, the gov-

ernmeot was forced to halve the offer to \$1.59hn and slash the price of the shares to below their initial range after US demand for the shares failed to materialise.

But the government has not let the affair sap its enthusiasm for further state sell-offs. Krakatau Steel, Bank Negara indonesia, the toll-road operator Jasa Marga and the stateelectricity company PLN have been flagged as next in line. "Of course we learned some essons [from Telkom] but it'e better not to dwell on what

went on," says Mr Bacelius Rura, director general of stateowned enterprises. Mr Rurn, together with the minister of finance, Mr Mar'ie Muhammad, plays a pivotal role in implementing Indones-ia's privatisation policy. "What is important for us is to look to

the future," he says. Asked what Telkom's lessons are, Mr Ruru is suitably vague. There might he some adjustments [to the privatisation programme] hut these adjustments should be tailored to the situation, the conditions and the terms of the capital market and the oeeds of the com-

pany. Behind the scenes, however, there was some consternation among Indonesian officials, who said Telkom'e four global underwriters - Merrill Lynch, Goldman Sachs, SBC Warburg and Lehman Brothers - should have foreseen that the market could not have absorbed an offer of Telkom's size. The genbecause of the number of underwriters involved there

eral consensus was that was no-one to take the lead. Mr Ruru, a former chairman of Indonesia's capital market snpervisory board who assumed charge of state-owned enterprises in a sudden post-Telkom rejig at the finance ministry, says there are no dates set for future privatisaPT Telkom Indonesia

government statements indicated that the intention was to sell off parts of Jasa Marga, BNL PLN and Krakatau Steel as soon as possible. .

Nov 1985 Dec

Most of these privatisations may be further down tha road than the government would like to admit. PLN is still in the early phases of restructuring, it aims to spin off a num-ber of units which will operate power stations in various parts of the country. It is these units which are likely to be privatised while PLN's core retains control over power distribu-

Jasa Marga, with Peregrine Securities acting as financial adviser, is still in the process of selecting foreign and local partners to build hundreds of kilometres of new toll roads throughout the country.

Meanwhile, although BNI's

assets and capital levels compare favourably with those of its peers, the state banking sector is still recovering from the bad debt ecandals of recent

There is also talk of a secondary offering for Telkoin officials will not comment on this - which brokers say would he a logical step. Telkom shares have done wall, vindicating the decision to cut back the size and price of the offer

A secondary offering would allow the government to capitalise on the share price gains and folfil its initial plan of selling off 27.5 per cent of the company. Only 19 per cent of Tel-kom was listed to November. Krakatan ... Steel ... has tions. Nevertheless, earlier appointed Price Waterhouse as its auditor and is looking for a financial adviser - brokers believe the issue is likely to go

in October this year. The market has been starved of new issues since tha Telkom offer, which goes some way to explain tha rally in Indonesian share prices since the beginning of this year. But a flood of new offerings is axpected in the second and third quarters. When it comes to timing the privatisations, the government "is competing not so much against Itself as against the rest of the market", says one earch analyst.

Indications are that Krakatan Steel still restructuring as Indonesia gradually deregu-lates steel imports, will be sold off in a dual international and domestic offer. It may well be tha only one of the four planned privatisations to do so, despite the fact that the government needs foreign capital raised from its privatisations to pay off its foreign debt. Following Telkom, "the gov-

ernment has recoiled a hit from efforts to float all the hig companies offshore", says one foreign broker. Mr Ruru indicated that BNI and Jasa Marga are both likely to be domestic offerings although he stresses "no final decision has been taken yet'

Mr Ruru says the structure of an international IPO is likely to remain one where, as was the case of Indosat and the original intention with Telkom, the government's share in the company was sold on the international market while new shares were sold in the domestic tranche. However, he does not rule out alternatives. As the dust settles over the Telkom issue, one factor will remain constant in Indonesia's

privatisation process; the role of President Subarto. As was the case with Telkom, Indosat, the tin miner Tambang Timah and the cement manufacturer Semen Gresik, "any decision to go along [with a privatisation] will originate from the government and in Indonesia the government is the president", says a finance ministry official.

Manuela Saragosa

OTHER MARKETS

PARIS

There was relief last Thursday when the Bank of France trimmed interest rates. especially as the equity market had been rising over the previous sessions in anticipation of such a move. writes John Pitt.

However, there was less satisfactory news oo the corporate earnings front, with Lyonnaise des Eaux, for example, forecasting a disappointing 1995.

Furthermore, French analysts lowered their forecasts for 1995 and 1996 corporate earnings growth. Earnings forecasts for 1995 were revised downwards by 5.8 per cent on average for a sample of 150 major companies, and by 2.6 per cent for CAC-40 stocks. For 1996, earnings were revised down by 3.3 per cent and 2.1 per cent respectively.

Analysts were particularly simistic about those sectors linked to consumer spending, such as cars, consumer goods and retailing.

The results season hegins this week, with figures from TF1, the television group, and Saint-Gobain, among others. Analysts expect an increase in TF1's net profit of about 15 per cent. Some believe there is

little risk of the company losing its right to broadcast, which is under re-negotiation.

FRANKFURT

After the market's foray into record territory last week, analysts are becoming cautious about where share prices are now heading. UBS says that although repo rates should continue to fall, the upside for the stock market is now limited in the short term as investors will finally start to become worried about the fundamental outlook for company earnings, which

continue to deteriorate. Tomorrow brings first-quarter earnings from Siemens, Robert Fleming Securities says it is well known that the company is expecting to deliver earnings growth of between 20 per cent and 25 per cent in the current year. It is also generally accepted that this expectation is realistic, since it is virtually underwritten by a reduction in the costs which Siemens has been taking against the P&L

account for restructuring. There is also a general expectation that Siemens will raise its dividend at the end of the year for the first time since 1990. The blg question, bowever, is whether this is

already in the price. On the face of it, says Flemings, with the share price at the top end of its range, much has been discounted. However, it believes that there is still some

way to go. ZURICH

The market looks set for further consolidation this week with the very sluggish bond market providing no impetus at all. Pharmacenticals could remain in focus after last week's mildly negative sales figures from Roche, which were counterbalanced by a more upbeat response to the Sandoz annour Nestlé, whose shares were

sharp under-performers last year, will also come under scrutiny today with some details of lts 1995 results. Mr Frederick Hasslauer at Bank Sal Oppenheim in Zurich expects the company to report flat to slightly negative sales figures for the second successive year.

He expects volumes, which have been on an increasing trend for two years, to rise by more than 3 per cent for 1995, after 2.3 per cent in the previous year, but with a 9-11 per cent negative currency effect reducing the growth in foreign currency terms

MILAN

to look elsewhere for inspiration.

possibly to a Wall Street beginning to

display signals that another cut in US

interest rates may come with the oext FOMC meeting, scheduled for January

The market's most eagerly awaited

between Granada and Forte. Dealers

say a Granada victory could be the catalyst for a series of cootested bids.

indicating the institutions' appetite for

news will be the result of the hid battle

The expected reappointment of Mr Lamberto Dini as prime minister should be good news for equities, which responded to the prospect by bursting higher on Thursday and Friday of last week. Indeed, the market'e subdued reaction to Mr Dini's resignation was largely the result of expectations that he would be back. The Comit regained the

600 point level on Friday in a ewhat premature approval of his return. Many analysts are, however, cautious about the short-term outlook, noting that the country could face a humpy ride as Mr Dini walks the

tightrope of putting in place a

new cahinet Not so Mr Andrea Azzimondi at CS First Boston, who has a mid-1996 target for the Comit of 700 points. He points to slowing inflation opening the way to a 50 to 100 basis points cut in interest rates, which would give a particular boost to a market more heavily biased towards financials than

other European bourses. Mr Azzimondi doubts that there are negative surprises on the horizon from corporate earnings, while a more stable political outlook caps the

Further evidence of the rally has come in the form of

TOKYO Caution over banking issues are heightening as the parliamentary talks over the liquidation of bad loans at the country's housing loan companies begins this week urites Emiko Terazono. Banks which lent heavily to the companies are likely to meet selling if the wrangling

Compiled by Michael Morgan

market, and this year perhaps

three or four are under serious

Brokers are hoping that She

nergy, the local power sector

investor, will issue B shares in

the first half of the year, and

thus give a boost to the Shang-

hai market like Guangdong

Electric Power did when it was

Shenergy is already the hig-

gest A share (A shares are

reserved for local investors)

company on the Shanghai

exchange hy market capitalisa-

Mr Crossman of Jardine

Fleming said foreign investors

would be attracted to new

issues as long they are priced

attractively.
One of the difficulties

encountered by brokers is to

persuade Chinese companies in

listed in Shenzen last year.

preparation.

EMERGING MARKETS: This Week

The Emerging Investor / Tony Walker

Pick-up in Shanghai after shaky start

1995 was a year Shanghai-based western brokers would like to forget. But after a shaky start to the new year most are forecasting an improvement in the second balf after disappointment recedes over a rash of poor company results for 1995 to be released by early

Mr John Crossman, the chief representative in Shanghai of Jardine Fleming, predicts that eod-of-year results will be "miserable" for many of the dozen or so industrial companies among 37 B share listings those reserved for foreign

But he believes that once the expected "fairly dismal" reporting season is out of the way. and assuming the Hong Kong market continues strengthen, Shanghai B shares will once again attract support from foreign institutions which have stayed on the sidelines for much of the past year and a

"We see the market picking up in mid-year once all the bac news is behind us", he said. "We are also looking to the government to loosen credit and this should help ease the triangular debt problem." Beijing's soccess in bringing down inflation to 15 per cent at

the end of 1995 from more than 20 per cent a year earlier has One of the main drags oo

selective relaxation of tight

earnings of many Chinese companies caught in the credit squeeze is their inability to pay each other for goods and services, leading in turn to a buge backlog of accounts

The disappointing performance of B shares listed on China's two exchanges, Shanghai and Shenzen, has seen Shanghai's B index slump from

Once the expected dismal" "fairly reporting season is out of the way, and assuming the Hong Kong market continues to strengthen, Shanghai B shares will once again attract support from

a record high of 105.78 on December 31, 1993 to finish this week around 51.39, a drop of more than 50 per cent over the past 24-months. It's high for 1995 was 63.81 in August. Shenzeo has followed a similar pat-

foreign institutions.

Investors in the rash of specialised funds floated during the initial burst of enthusiasm for China stocks have experi-

enced disappointing returns, to say the least; but brokers and that B share investments will

reward the patient. Mr Richard Graham, head of ING Barings' Shanghai office, says that 1996 is "very unlikely to be worse than 1995". Market turnover was just one-third

"This implies that investors have seen the bottom of the cycle and are becoming more optimistic," he says. "It's like the earliest signs of spring. You may be seeing a few spowbells and anenomes creeping through in the garden." American institutions are said to be huying selectively in anticipation of a stronger mar-

improvement of China's econoese mutual funds, however

In recognition of this, Jardine Fleming has added a Japa-

Shanobai B Index

Source: FT Exter

But Mr Graham said sentiment appeared to be shifting. He cited as an example the performance of Barings' own Greater China Fund Inc. listed in New York and trading at an If per cent premium to net

ket in the second half of the year with the continued

The Japanese, on the other hand, are staying out of the market for the time being after a hurst of buying in 1994. Japaare continuing to study the situation closely, especially con-sumer products companies, according to a Japanese bro-

nese speaker to its staff. "The Japanese will in the long-term again come to the market", said the hroker. "While they have had their fingers burned, they still see huge

potential in China equity Brokers, in their cautiously optimistic assessments for 1996, are also relying on an anticipated "knock on" effect from a strengthening Hong

Kong market. Investors who have done well with China-related stocks in Hong Kong may decide at some point to take profits and reinvest in China.

But weighing beavily on the more optimistic forecasts is the fact that the B share market lacks figuidity, and new listings are proceeding at a snail's

Last year, there were just the present climate to be two new counters added to the realistic about price

5-7 times these days rather than 8-10 as was the case in 1993 and 1994", he said.

"The problem, however, is that the Chinese value companies by assets and foreigners lne them by earnings poten-Asked to identify expected

"Investors will wear PE's of

earnings multiples.

better performing sectors this year, Mr Crossman nominated textiles and petrochemicals. Brokers are bearish about real estate stocks because of concerns about a looming oversupply of office space, especially in the Pudong economic zone where a building boom is

m process. As the new year gets underway China's markets are still labouring under the burden of an inadequate regulatory sys-tem, and plagued by arbitrary intervention by the authorities

in Beijing.
This was the gist of a critical World Bank report which found the development of China's capital markets was being hampered by government "Capital market development

in China is still embedded within the framework of an economy in transition, where many of the features of the former planning system remain" the report said.

It warned that the "novelty value" of China investments had passed with highly illiquid hard currency B shares a special source of concern.



Strategy

The failure of Indonesia'e PT Telkom's flotation last year resulted mainly from the saturation of Indonesian stock in the emerging market portfolios of UK institutions rather than from a saturation in telecoms stocks, a survey commissioned by Burson-Marsteller, the PR agency, shows, writes Antonia

The survey also indicated that UK institutions pay more attention to the quality of the market itself than the industry sector when deciding in which emerging market to

On individual markets, the fund managers view China and India with caution but said that they intended to increas their exposure to eastern

Europe.

Taiwan and Victoria were seen as sound investment opportunities while in Latin America, Brazil was the favourite market.

The survey was carried out between September and November 1995 and the sample consisted of fund managers responsible for emerging

which control 95 per cent of all

UK institutional investment in emerging markets, currently

Turkey

Plans to set up two regional stock exchanges are understood to be under consideration by the capital markets board. The markets would be located in Denizli and

The Istanbul stock exchange was launched in 1986 and its market capitalisation has soared to \$22.6bn by November 1995, with 203 traded

Czech Republic

A Czech finance ministry commission has recommended that the ministry grant a licence to operate the country's third stock exchange to a group called RTP. Reuter

If granted the bourse would be the third organised exchange in the country, after the Prague stock exchange and the computerised over-the-counter RM-System Edited by John Pitt, Further coverage of emerging markets appears daily on the World Stock Markets page

CURRENCY MARKETS

Dollar stays focus of market attention

By Gillian Tett

With finance ministers from the Group of Seven countries having met in Paris this weekend, the main focus for the currency markets this week will be the dollar's movements against the yen and D-Mark. The G7 welcomed the rise in the dollar in recent months and hoped it would continue -

This would delight German and Japanese policy makers. whose exporters bave been

especially against the

complaining of dwindling competitiveness.

However, opinions are split in the markets about the potential for further dollar strengthening · not least because of the ongoing uncertainties about the path of economic growth. If, as some economists sus-

pect. European interest rates fall further after this weekend's meeting, then there are hopes that the D-Mark could in Europe there are few significant currency-sensitive

releases expected. But in the

UK, the release of provisional estimates of gross domestic product for the fourth quarter of 1995 could have some impact on the British currency.

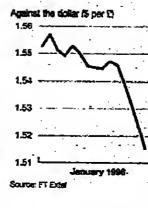
Nevertheless, the most significant factor for sterling is likely to be the political situation, with markets now watching like hawks for any further signs of looming instability.

Although the slowdown in European growth has been the main focus of attention recently, an edge of uncertainty still hangs over the US economy. Many traders believe

that the US offers the healthiest growth prospect at present: however, there has a been a paucity of data on the US in recent weeks, because of the government shut down.

Against this background, the release of US capacity utilisation figures on Wednesday could have some implication for the dollar, together with President Clinton's State of the Nation speech on

Meanwhile, the release of Japanese data is expected to show that the Japanese economy is improving slightly.

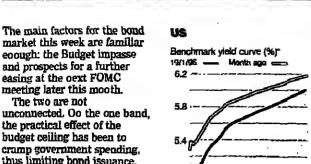


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NEW YORK

WORLD BOND MARKETS: This Week

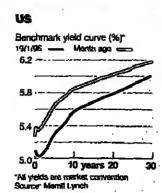


cramp government spending. thus limiting bond issuance. This might point to a further loosening of monetary policy. On the other hand, in the absence of a hudget agreement. tax cuts would start to kick in without speoding cuts having been agreed. Thus, in the slightly longer run, there

tightness to offset fiscal laxity. That apart, the market plainly feels the ecocomic way: hence the drop back below 6 per cent in the long bond yield last week. Even the weather is helping.

might be a case for mooetary

The oumber of companies blaming the receot hlizzard for disappointing results is rising;



Lisa Bransten

and, excuses aside, it does seem that the weather has dented economic activity. Tomorrow brings personal

income and consumption data for October and November. with Salomon expecting the former to slow between the two mooths and the latter to accelerate. Wednesday brings an expected rise in industrial production and capacity utilisation for December, and a likely further fall in new home sales for November.

Antonia Sharpe

Benchmark yield curve (%)"

19/1/96 - Month ac

UK

6.8 ~

The gilts market faces two important sets of data this week. The first – preliminary gross domestic product for last year's fourth quarter - is due today. The median forecast is for a 0.4 per cent rise on the quarter for a yearly rise of 1.8 per ceot, well below the 21/2 per cent level the government regards as inflationary.

LONDON

The second, the CBI industrial trends survey for January, due tomorrow, should provide further evidence of akness in manufacturing. "If GDP is below 1/4 per cent

and the CBI survey is weak, gilts should perform well." says Mr Simon Briscoe, UK economist at Nikko. Bot he does not expect much change in the 10-year yield spread over Germany, which on Friday stood at about 159 basis points. Mr James Barty, senior UK economist at Deutsche Morgan Grenfell, believes that at current levels the gilts market looks expensive, in view of the political risk and the softness of sterling.

With the average yield on

government bonds at a near 18-year low last week (5.22 per cent against 5.15 per cent in March 1978), the Bundesbank is pleased with the impact of its more relaxed monetary stance at a time of economic stagnation.

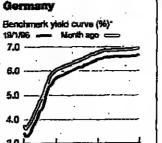
FRANKFURT

Now, the question is when, and whether, it will cut short-term rates again. Mr Johann Wilhelm Gaddum. deputy president, said it would await January money supply figures to assess the initial effect of discount and Lombard rate cuts last month. He said The other main event will be tomorrow's announcement by there was scope for the the Bank of the England of the securities repurchase (repo

> last week's 3.65 per cent. The target for M3 growth is 4 to 7 per ceot. Annualised monthly growth rates have been below this recently but six-month rates have been just above 4 per cent.

rate to fall to 3.25 per cent from

"Bundesbank policy is certainly in a position, and is ready, to react flexibly if this is necessary to reach its money



Andrew Fisher

supply target," said Mr Gaddum. If the trend proved unsatisfactory, the Bundesbank had "potential for action".

10 yrs 20

Economists increasingly expect further rate cuts. Mr Adolf Rosenstock of IBJ Research said: "The Bundeshank is seriously concerned about real economic growth and, consequently, the forces behind M3." A further rate cut at end-March was now

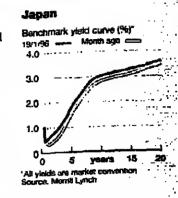
TOKYO

Low short-term interest rates are likely to support the bond market and yields are expected to move within a tight range this week, desplte a range of economic data which is likely to confirm a gradual recovery.

The Bank of Japan's quarterly branch managers' meeting is expected to offer an improved view of regional economies but the underlying tone is expected remain cautious.

Production rose in October and November, endorsing views that inventory adjustment is proceeding smoothly. "But continued sluggish domestic demand, ongoing difficulties in the financial sector and subdued inflationary pressures suggest no change in the Bank of Japan's policy stance," says

DKB International. Recovery expectations are also likely to be heightened by a rise in the leading and co-incident indicators for November. In October, the co-incident indicator rose to 75,

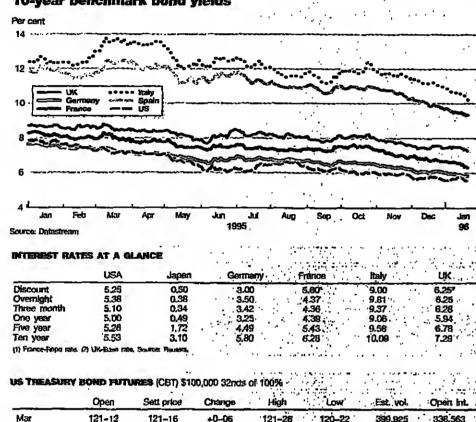


Emiko Terazono

breaching the boom; bust level of 50 for the first time in six mooths, and economists expect the figure to rise above that level in November also. Low inflation, on the other hand, is likely to counteract the effects of recovery expectations.

Seasonally adjusted consumer prices for Tokyo in 1995 feli 0.3 per cent, with the core rate excluding fresh food prices falling 0.1 per cent in December.

10-year benchmark bond yields



Syndicated loans

details of next week's gilts

paper, the Bank could be

reluctant to issue another

tranche of the current

auction. Although the market

benchmark, the 7 per cent of 2001, as this trades above par.

five-year issue, with a coupon

It could therefore auction a

closer to current five-year

yields of 6% per cent.

expects £3bn worth of five-year

High bank liquidity keeps the lid on margins

The syndicated loans market has got off to a strong start in the new year, with a flurry of deals launched in the past two weeks. Borrowers from Scandinavia, central Europe and the Mediterranean regions have been particularly active. "It's busier now than this time last year," said one banker. "Pricings are low, and that's attracting demand for funds," he said.

Moreover, the high levels of liquidity in the banking sector mean that strong demand for loans is keeping interest mar-gins subdued. "While margins may not fall any further. I don't see any reason for them to start rising soon," be said. Among last week's deals was

the launch of a \$750m sevenyear debt facility for Enso, the Finnish forestry products com-pany, which mandated Union Bank of Switzerland and Merita Bank as arrangers.

The terms remained confidential, but dealers are calling for an interest rate of 22.5 basis points over Libor for the first five years rising to 27.5 points thereafter, with a 5 basis point utilisation fee.

Another Finnish borrower, crude petroleum and natural gas company Neste, launched its \$500m seveo-year multi-currency revolving credit facility last week. It will pay 17.5 basis points over Libor for the first three years, 20 points in years four and five, and 22.5 points for the remainder. Arrangers

are Chemical Bank and Deut-

sche Bank Luxembourg. Finnish debt has been seeing stroog demand: a loan for Finland's Rantaruukki, arranged by Chemical Bank, Merita Bank and Mitsubishi Bank and signed on January 11, was increased to DM350m, from the DM150m initially sought after beavy oversnbscription. The facility carries a margin of 30 basis points over Libor for the first five years, rising to 35

points thereafter. A FFr3bn five-year revolving credit facility was launched into general syndication for Compagnie Générale des Eaux, the French construction and utilities group. Dealers reported fierce bidding for the mandate, with some banks reportedly offering interest margins as low as 15 basis-OAEL TYDOL

in the event, the margin was set at Libor plus 19.5 basis points, with a commitment fee of 9.S basis points. The deal is being arranged by Unioo Bank of Switzerland.

Israel Electric Corporation, the state-owned power utility, last week launched a five-year \$50m term loan via Euro-Trade

Bank, Sumitomo and Union Bank of Israel. The loan, which has a four-year grace period, pays a margin of 50 basis points over Libor.

The Republic of Slovenia launched its long-awaited \$60m. seven-year term loan via Credit Suisse, Dai-Ichi Kangyo, J.P. Morgan and Sumitomo. Dealers said the strong arranging group could get the deal off the ground in spite of its tight pricing of 40 basis points over Libor during the first four years and 50 points over for the remaining three.

Other central European bor-

rowers rumoured to be planning comebacks include the Czech Republic's Investicni Banka and Komercni Banka. Both came to the market last year and raised eyebrows with their finely priced deals: in October Investical borrowed \$175m of five-year funds at a margin of 25 basis points, rising to 30 points but declining by 5 points if the Czech Repubjoined the OECD, which it did at the beginning of 1996. In November, Komerchi obtained \$150m of three-year funds at 20 basis points over Libor. ..

rumoured to be planning a loan, although after last week's large bond issues in D-Marks and Japanese yen, its return may not be imminent. Dealers said it would want better terms than last year's \$600m five-year loan, priced at 80 basis points over Libor, and is looking for less than 70 basis points.

Commercial Bank of Greece is in the market with a \$100m facility with a maturity of two years and one day priced at 55 basis points over Libor, which some dealers deemed as aggressive. Bank of New York and Sanwa are joint arrangers.

Recent weeks have also seen the successful completion of several deals: a \$310m 18-year facility for Scandinavian Airline Systems, increased from the originally planned \$250m; a \$500m loan for Glencore, the Swiss trading and industrial group, which was increased from \$300m; a \$100m loan for Anglovaal, the South African industrial and mining group; and a £60m debut syndicated lean for transportation com-

pany Firstbus. • The Government of Tunisia has raised \$200m in a syndicated loan, finance minister Nourl Zorgati announced at a signing ceremony in London. The loan, arranged by Sanwa Bank, Commerzbank and Société Générale, has a fiveyear maturity and three-year grace period, and was priced at 70 basis points over Libor.

Marking Tunisia's return to four-year absence, the loan is part of the government's attempts to diversify its funding sources. Since international development agencies trimmed their credit to Tunisia following the successful completion of a structural adjustment programme, it has been tapping international markets.

After issuing four Samurai bonds last year, it bas now moved to the euromarket. Mr Zorgati said the syndicated loan may be followed by a Eurobood issue later this year.

To ensure that the budget deficit does not to exceed its target of 2 per cent of gross domestic product for 1996, Tunisia will seek to borrow a total of \$100m on the international capital markets.

The syndicated loan, originally planned to raise \$100m, was increased to \$200m, leaving another \$200m to be borrowed by the end of the year. Commitment to a strict reform programme has allowed. North Africa's smallest country to record average growth of 4.S per cent in the period from

1992 to 1995 and has raised its

international profile. Last year, Tunisla became the first Arab country to be awarded investment grade credit ratings: BBB from Moody's and BBB- by UK rating agency IBCA. It was also the first country on the southern flank of the Mediterranean to sign an agreement with the European Union'to'

Tunisia has total external debt of \$9bn, representing 53 per cent of GDP, while servicing the debt consumes 18 per cent of the country's foreign exchange revenues.

Conner Middelmann and Roula Khalaf

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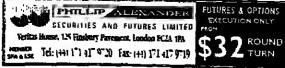
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Risk management

Report urges need for 'top down' approach

The management of risks is high on the list of concerns at banks and securities houses over the past 12 months, with worries prompted in part by a series of heavy losses in the derivatives markets.

Today. Coopers & Lybrand. accountants and management consultants, will unveil a new initiative in the area, with the publication of a report outlining a comprehensive framework of risk management principles for financial institutions. The report, entitled "Gener-ally Accepted Risk Principles" (GARP), lists no fewer than 89 principles, covering risk man-

agement strategy, organisation, operation and systems. In short, the report provides a checklist for the kinds of organisational structures and

banks and securities firms need to put in place in order to manage market, credit and other risks.

The framework "is intended to serve as a benchmark for banks and other major financial institutions active in financial markets and will become a common risk management standard for our industry". said Sir Peter Middleton, chair-man of BZW, which led a panel of practitioners and supervisors from both the UK and the US that reviewed the report. "It is clear from recent

events that one of the greatest risks facing financial institutions is the lack of communications and understanding of risk management principles by the board," explained Sir Peter. GARP are a way of bridging this gap and abareholders should take note." The document huilds on

much of the thinking published by industry groups such as the Basle Committee, the Derivatives Policy Group and the International Organisation of Securities Commissions, hot GARP places renewed emphasis on the role and responsibility of the board.

Risk management needs to be driven from the top down by people charged with overall responsibility for running the business,* said Sir Peter. "Risk managemeet princi-

ples must therefore he designed for use in all aspects of the organisation, from the board to operational manage-

ment, from business strategy and policy to operational procedures."

The report also points out that risks such as legal, opera-tional, personnel and so-called "reputational" risk - which are not so easily quantifiable as market or credit risk - must also be managed in an effective way and should be integrated into the overall risk management mechanism.

"The broad range of GARP means it is a document that deserves serious consideration at the most senior level, and across a range of responsibili-ties not confined to traditional risk management or internal audit functions," added Sir

Richard Lapper

NEW INTERNATIONAL BOND ISSUES

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Tales of the unexpected comforting THEM," said the

Slugs in salads and hugs during hours flights are just some of the bizarre:

happenings experienced by business travellers, according. to Executive Travel magazine. In one case, a passenger on a European flight found slegs in her lettuce, only to be told by cabin staff: "You should

by caon seam you should have made it clear you wanted a vegetarian meal. The bugs came when a traveller reported that during an emergency landing on a CIS aidine the crew seemed more frightened than the passengers: We ended up

A passenger clearly initiated the flight attendant on one occasion by asking for a G. and T", adding: "That's gin and tonic to you." Back came the reply - "ice and lemon, madam? That's frozen water and sliced fruit to you

Another flight attendant: showed more of a sense of humour when a passenger was asked for his bowl of appetisers as the plane was about to depart. But he ask if he could heng on to his nots during take of "Certainly sir." came the reply. makes you more placed."

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Hong Kong ries with a specific and the parameter assisting for the aircraft Sality, as pecause many member ents Paton added

police patrols. They are protecting airport facilities and passeriger safety," said an official Yuri Borisenko, deputy police chief at Moscow's itional Sheremetyeve alroortesaid more traffic police posts were put on all the roads

Hotel proposal rejected Plane for the first hotel on Bellast's Falls Road for 15

ceasefire. Financial backing for the 14-bed hotel was turned down by the board which said hotels with 40 beds or more had

up to 600 new hotel rooms in Beliast, Londonderry and Carricklergus, Co Antain.ers. priority, expected to open this year.

Domestic fares car Korean Agristo extrines.

Likely weather in the leading business centres

Concorde takes the 20th birthday cake On the supersonic service's china anniversary, Michael Skapinker finds the aircraft is no old crock

first commercial Con-corde flight from London to Bahrain that the crew had trouble persuading the passengers to sit down for take off Brian Calvert, co-pilot on

that flight, 20 years ago yester-day, remembers the passengers as an odd mix. There were journalists, politicians, and paying customers who had booked their tickets many years before - much in the way that people today reserve their seats for the first commercial flight to the moon. Michael Donne, the FT's vet-

eran aerospace correspondent and a passenger that day, described some of his fellow travellers in the FT of January 22 1976, "One of the more colourful aspects of the day was the robe and head-dress worn by a fare-paying passenger, Mr Bob Ingham, 50, a plant-hire firm manager from Trowbridge. He had applied for his ticket in 1969 and decided to wear 'a futuristic outfit for a futuristic aeroplane'. British Airways was not amused but could do little since Mr Ingham had paid his fare."

The BA flight made the jour-ney from London to Bahrain in three hours and 38 minutes. It took off from London's Heath-

ral flights, Margaret Thatcher, leader of the opposition, lam-basted Harold Wilson, the Labour prime minister, for presiding over e rise in unemployment to 1.43m, the highest since 1939, and Gerald Ford, US president, submitted his budget to Congress. The first BA Concorde flight was almost postponed because of union trouble involving pilots' pay,

It is e world which has changed markedly. And, since then, Concorde has reached an age when most aircraft are headed for the aerospace museum. But the most remarkable feature of the world's first and only supersonic commercial aircraft is that Concorde still looks - with its sleek lines, swept-back wings and predatory nose - decades ahead of its time.

It is decades ahead of its time. Calvert recalls that when Concorde was being tested, the Royal Air Force used to scramble its finest jets in an attempt to intercept it. They never

Dave Rowland, an experienced Concorde captain, concedes that there are military aircraft today which can fly faster than Concorde, but not for long. 'Military pilots can't sustain Mach 2 for two and a half hours," he says. "Nobody can do what we do."

Administration predicted that there would be 200 supersonic and seven with Air France. BA says its Concorde fleet has aircraft operating by the mid-1970s. The FAA thought the travelled 125m miles, the equivalent of a journey from supersonic aircraft would be the earth to the moon and back more than 200 times. Both BA

for economy passengers only: the rich would fly private jets. The long list of airlines which took options on the first Concordes, including Pan American, Jepan Air Lines, Lufthansa and Qantas, never exercised them. BA and Air Franca are the only airlines flying Concordes today and even they use them on only e small number of routes.

After his first flight, Michael Donne reported that BA planned to extend its flights to Singapore, from where Concorde would fly to Melbourne, up to Hong Kong and then Tokyo. "From Tokyo," he reported, "the possibility emerges of flying to Anchorage, Alaska and then on to London, providing a globe-girdling Concorde operation."

Various Concorde rontes have been attempted, but today BA flies only from London to New York and to Barbados, and Air France from . Paris to New York - although both airlines run charter flights to other destinations. As to supersonic flight being available to economy passen-gers, a BA return flight from

The transition through Mach and Air France say their Concorde services are profitable.

For those wealthy enough to afford the journey or, like me, fortunate enough to be invited by BA on a day-trip to New York to celebrate the 20th anniversary, the excitement is still palpable. Most aircraft are more or less the same, whatever distinction their manufacturers claim for them. Concorde is different.

eports that the interior is cramped and claustrophobic are overdone. It is true that the ceiling is a little low. But Concorde's 100 seats are no more cramped than those in conventional economy, and the upholstery is far superior.

Unlike large jets which take to the air in a slow and lumbering fashion, Concorde lifts at high speed with a tremendons roar of the engines. These then quieten as displays at the front of the cabin record the rapid increase in altitude and steady progress towards tha sound barrier. As the aircraft row at the same moment that Yet supersonic travel has £5,284, or £4,367 if you come engines after-burners are the first French Concorde set, never achieved what was back the same day.

Time the first French Concorde set, never achieved what was back the same day.

Started, adding additional first first from Paris, to Ric. 10 the exhaust gases and promoves towards Mach 1, there

1 is imperceptible. For much of the journey. Concorde cruises at twice the speed of sound, 1,350 miles an hour, at altitudes of up to 58,000 feet - the edge of space. It is a noisy air-craft, but because it flies above air turbulence, the flight is remarkably smooth.

At cruise speed, Concorde's windows are hot to the touch. Such is the heat generated by the speed that the fuselage grows 10 inches during the flight, resuming its original length by the time it lands. That heat is the key to Con-

corde's future. The heat burns off any moisture in the structure, preventing corrosion, Concorde's speed also means it flies fewer hours than other aircraft. BA's Concordes clock up an average of three hours flying a day, compared with 13 hours for a Boeing 747-400. BA and Air France say their

Concordes could fly for another 15 years and probably 20. A successor is unlikely to be produced within that time. Jock Lowe, general manager of BA's Concorde programme, points out that Concorde was developed in the 1960s, supported, however controversially, by the British and French governments. It was a time when projects on this scale could be mounted without any certainty of echieving a financial return.

Times have changed and

handed. Whichever manufacturer builds a successor will need airlines prepared to commit themselves to buying them in advance. The new supersonic aircraft will need to be able to carry at least 200 passengers across the Pacific and not, as in Concorde's case, only

across the Atlantic. It is still e remote prospect. Concorde will end this century, which began with the flight of the Wright brothers, as the pinnecle of humankind's success in taking to the

In his introduction to Celebrating Concorde, e book by former BBC aerospace corre spondent Reginald Turnill, John W.R. Taylor, editor emer-itus of Jane's All the World's Aircraft, said: "Whatever they might say, most British people are so proud of it that after more than 20 years, they still look up admiringly whenever

it flies overhead. "It is one of the few aeroplanes in history that has done everything it was designed to do - carrying up to 100 passen-gers in armchair luxury non-stop over the Atlantic between Europe and north America at twice the speed of sound, as a daily routine throughout the year, in perfect safety. It has never hurt a passenger in all its years of service. It is an achievement of which Britain and France can be proud."

Words which might serve for governments are less open- the 40th anniversary too.

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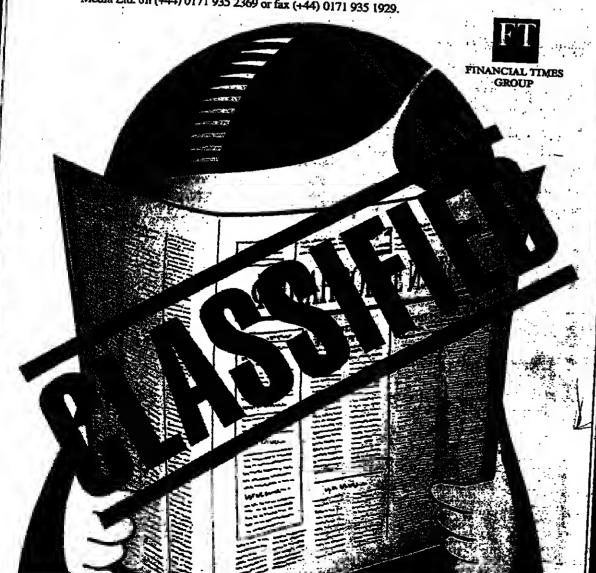
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TURKE Rumble

FINANCIAL TIMES SURVEY

TURKEY: THE CUSTOMS UNION WITH EUROPE

Rumbles in the east as the gate opens

Turkey sees its customs union with the EU as a leap towards full-scale membership. In this four-page survey, John Barham explores the potential for greater integration with the West

urkey has always strug-gled with an identity cri-sis. It faces both east and

Although it proclaims a European identity, few Europeans see it as such. At the same time, Turkey is a Moslem nation, but its neighbours in the Arab world and Iran traditionally view it with suspicion. In a recent poll, the US Inter-national Republican Institute

found that 41 per cent of Turks consider Turkey a European nation - slightly more than those who see it as part of the Moslem world.

It is therefore ironic, and yet somehow predictable, that an Islamic party should have won

most votes in the Turkish general elections on December 24, only 11 days after the European parliament ratified a customs union between the European Union and Turkey.

The customs union, intended to bind Turkey more closely to the west, came into effect on January 1. establishing the closest trade and political relationship the EU maintains with any non-member country.
Yet the radical Islamic Refah

party's success marks one of the greatest challenges to the secular, pro-European Turkish republic in its 73-year history. Although Refah lacks a majority in parliament, its rapid rise highlights tha risk that con-

frontation, rather than cooperation, could dominate relations between Europe and Turkey. By drawing alarming paral-lels with fundamentalism in Iran and Algeria, however,

European commentators have overlooked tha underlying strength of western values in Turkey. Many Turks consider themsalves Europeans and want to play a greater role in the continent's affairs. Mrs Tansu Ciller, who was

prima minister when the customs union was ratified, said "Turkey's goal is EU membership. The struggla will continue until Turkey is a full member." Even Mr Necmettin Erbakan, Refah's leader, toned

Exports (Turkey to EU)

porte (Turkey from EU)

While many western ana-

Mr Arnold Hornfeld, head of Siemens' operations in Turkey and a man with an intimate understanding of Turkish society, says "Turkey is more westan-minded than even many Turks realise". But he warns economic difficulties are the main cause of political disturbances". As long as the economy grew faster than the population, all should be well, he

Business executives hope the union will narrow the scope for irresponsible government poli-cies that feed public sector deficits debt and inflation while

down his anti-European invec-tive after the election as he tried to form a government. He said he would renegotiate the customs union treaty, rather than scrap it altogether as he had promised. The same goes for links with other western bodies such as Nato and the

The customs union was originally conceived in 1963 to anchor Turkey in the west, but without admitting it to the then European Community. (Brussels rejected Turkish applications to join the EEC in 1958 and 1987.)

This rationale grew stronger following the Soviet Union's collapse, when western governments identified political Islam as a strategic threat. Turkey is the region's most populous Moslem state and its largest and most sophisticated economy. It is also one of the Moslem world's rare secular, prowestern democracies. An Islamist threat to Turkey therefore has far-reaching

Mrs Ciller played on this fear during the difficult ratification process of the customs union, when European MPs threat-ened to block the treaty because of Turkey'e human rights record. She warned last April that "fundamentalism is only going to be a threat if Turkey is left out of Europe. I think Europe [needs] Turkey if it does not want the forces of fundamentalism to move up to

lysts agree with this, most would add that political Islam's principal driving force is dis-content caused by Turkey's chronic economic and social

> among the EU's largest export markets and the EU takes about half its exports. However, customs union may also bring a period of disruption as industry restruc-tures. Years of undernivestment and protectionism have blunted competitiveness. Mr Sakip Sabanci, head of the eponymous industrial group, says productivity has declined relative to Europe in recent years: "Where productivity in

Europe was 100, in Turkey it has fallen from 20 to 16." Companies with weak man-long-standing problem, should

will increase volumes of trade,

bringing greater economic

activity and reducing volatility

in the economy".

ogy to produce poor quality goods are most at risk. Among these are almost the entire public sector, the steel and chemical industries as well as many small and medium size

The union brings Turkey into the single European market, and extends most of the Customs union will benefit competitive industries, such as EU's trade and competition ss, textiles or ceramics. Secrules to its economy. In princitors once thought to be vulnerple it should prepare it for able to European competition, such as the car industry, have accession to the EU at some undergone thoroughgoing reorundefined, though probably distant date. Turkey is already ganisation. Still, even well-run companies, such as white goods, that lack economies of scale to connete in an open market may face difficulties.

The union will almost certainly bring far-reaching changes in Turkly's business culture import competition is expected to drive down high margins, forcing owners of private companies gradually to surrender control. This process has already begun; the number of quoted textile companies doubled to 22 between 1990 and

decline adopted stricter intellectual property regulations. EU conmer rights and safety standards will force companies to address issues that once received scant attention. EU competition rules will reduce

the scope for subsidies. With tima, the customs union should boost investment, bringing growth, more joba and higher incomes. Europe is already Turkey's largest source of inward investment. Although some new projects and investments have been announced recently, bankers say large investment will begin once the political climate improves.

Some businessmen reckon the customs union will only bear fruit in three to five years and fear it may at first increase social stresses that radical parties like Refah could exploit. The EU has promised aid and loans to help Turkey through this difficult initial phase. However at only Ecul. 48bn over a five year

period, this is a relatively modest amount for a big economy. -To make custoins union suc-

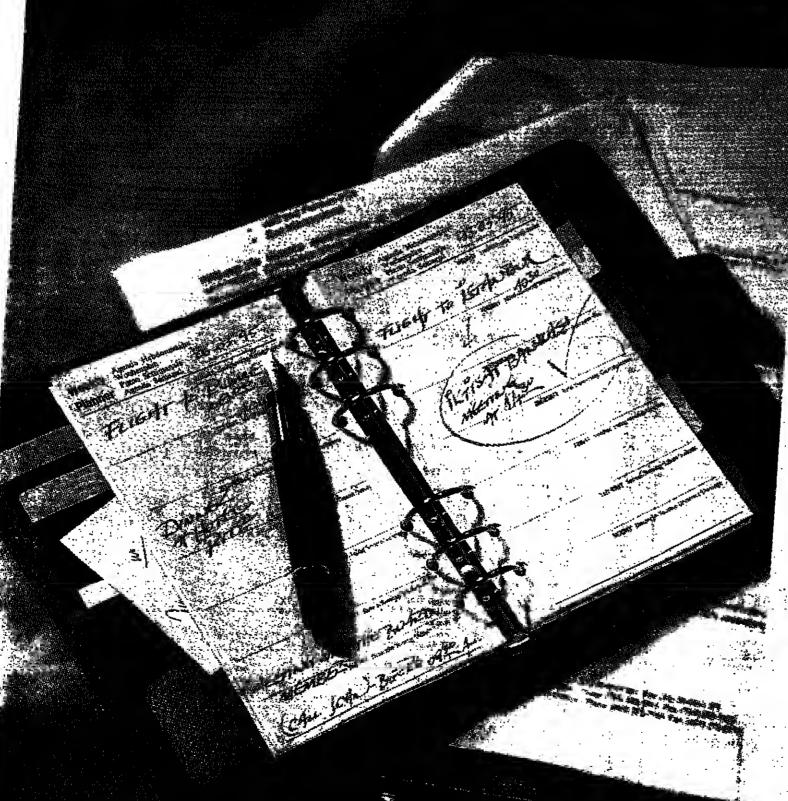
ceed - and further its case for EU membership - Turkey must reform its economy. A western ambassador forecast that European and US governments would urge the incoming government to adopt seri-

ous reform policies. Turkey is not growing fast enough to provide jobs for the im young people entering the jobs market each year. With the population growing by about 2 per cent a year, Turkey will have nearly 70m inhabitants by the year 2000.

Marketing executives say the economy must grow steadily by at least 7 per cent a year to make a noticeable impact on incomes. But they forecast half this rate for 1996 and 1997. Allowing for inflation and population growth, real incomes stopped rising in early 1994, when economic turbulence cut them to 1985 levels.

Rapid urbanisation is further adding to social strains. Peasants pour into crowded big city slums where unemployment is rife. Istanbul alone receives about 400,000 migrants annually, many of them fleeing vio-Continued on Page IV





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STATE OF THE ECONOMY

Riding high in a violent storm

Tough decisions face the incoming government. The longer it waits the harder its task

Turkey has begun the new year with an economic crisis as well as a political one. It faces both critical short term difficulties as well as profound long term challenges.

The economy's immediate problems are easily apparent. It is afflicted by chronic inflation and heavy dehts. Prices rose by 79 per cent last year, but inflation is now expected to increase sharply although the central bank's decision to keep interest rates sometimes reached 200 per

will keep the lid on more manageable, with this schedule. Economists fear that inflation in the short term. forecasting that inflation will still range between 75 and 100

The government is also facing a domestic debt crisis. It is not so much the size of these debts as their maturities and high interest rates they bear. interest on the \$24.4hn domestic deht fluctuated at around 30 per cent in real terms last year and service payments consumed close to 8 per cent of GNP. Domestic investor confidence haa evaporated, reducing maturities to little more than reducing 100 days. As a result, the government must roll over most of its local currency debt

year's service charges falling slightly to \$11.34bn, and foreign hankers expect the treasury will have little difficulty in honouring deht and principal.

Turkey's economic troubles grew worse in the last months of 1995 as Mrs Ciller's outgoing government boosted growth in the hope of winning reelection, ahandoning partlally successful attempts to meet economic targets agreed with the International Monetary Fund as part of her 1994 \$740m standby loan. Turkey met none of its 1995 policy targets.

The incoming government will have to rush a budget through parliament as soon as it takes office to hoost cashflow allowing it to meet the The \$73.61bn foreign debt is mounting deht repayment

the longer it takes to form an effective new government, the more severe the policies it will have to adopt. Although

rehemently deny they would restructure the government's domestic deht, hankera in Istanbul would not be surprised if the treasury were forced into a unileteral rescheduling of the domestic

Alternatively, government might almply monetarise its bonds, allowing heavy inflation to eliminate its debt mountain. This would be an extreme solution which few analyats are expecting. The most likely outcome is that the next government will attempt to muddle through as long as

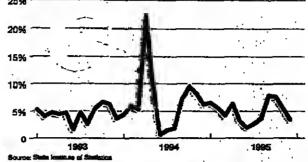
possible.
The public sector's huge deficits are fuelling inflation and debt. The state companies. bureaucracy, armed forces and social security system spend far more than the government can collect in taxes. But politicians have consistently avoided grappling with these powerful vested interests

All mainstream political partles put privatisation, inflation as their top priorities hut markets doubt whether a weak coalition government can make much headway in reform. Still, economists say inflationary expectations and interest rates would tumble once the market was convinced that politicians were genuinely committed to public aector

Although privatisation has been an official government policy since the late 1980s and most parties now support it. very little progress has been made. Last year the government struggled to sell \$500m-worth of state assets. me-tenth of its target at the heginning of the year.

Still, it is a tribute to sobled by Turkish Aerospace Industries for the Turkish sirforce Turky Nek Turkey's resilience that the

Change over previous month (Consumer Price Indeed



TO	TOTAL OUTSTANDING FOREIGN DEBT (\$bn)									
Yeer	Debt	% of GPD	Service payment							
1991	50,49	32.9	7.56							
1992	35.59	34.7	8.73							
1993	67.38	35.5	8.23							
1994	85.60	50.6	9.99							
1995	70.59	44.3	12.53							
1996	73.61	50.50	11.34							

economy grew 7.1 per cent in 1995, following a 6.1 per cent decline the previous year. Exports actually grew last year, in spite of a 13 per cent revaluation in real terms of

Mnch of the growth is attributable to the economy. underground Estimates of its size vary widely, but most economists agree that it is about the same size as the formal economy. It may have helped Turkey

weather snccessive economic crises with relatively little social trauma, hut it spewns organised crime and companies evading taxes compete unfairly with those that pay taxes and onerous employment taxes.

Economists have urged successive governments to attack evasion more aggressively by simultaneously lowering tax rates and widening the tax net. This would increase revenues,

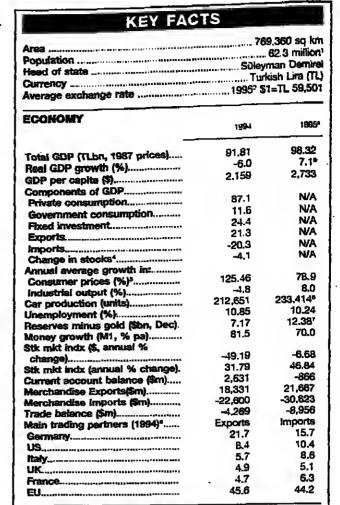
narrow the hudget deficit and reduce inflation.

Indirectly, customs union may also help foster economic stability now that Turkey must follow EU roles on state aid

In principle, the government cannot continue hailing out loss-making state companies or subsidise favoured industries. Greater import competition and investment flows could

also hring greater stability. The EU is already Turkey's main source of inward investment. It is Turkey's principal trading partner, providing roughly half of is imports and taking half its exports.

Economists say Turkey's economic growth rate could easily increase hy half to at least 7 per cent a year if the government restructured the economy. But slaying debt and inflation requires a political consensus that has evaded



(1)Estimate. (2)End of 1995. (3)Estimate unless otherwise stated. (4)Plus statistical discrepancy. (5)End period. (6)Calendar 1995. (7) Dec. 29, 1995, (8) Share of world trade.

Sources: Datastream, Economist Intelligence Unit, national

THE POLITICAL DIMENSION

Membership is the goal

Formidable barriers could thwart Turkey's drive for full EU status

For Turkey, customs union is only a means to achieving EU membership. Mrs Ciller told ber hosts at the EU's Madrid summit, shortly after the Eurobean parliament approved cus-

toms union, that "the struggle will continue until Turkey is a full EU member". This will not be easy. Osten-

sibly, customs union is a halfway house to membership, but

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few European diplomats imag-ine Turkey joining the EU in every day in southeastern Tur-the foreseeable future.

A European Commission paper explaining rejection of Turkey's 1987 membership application said its incomes gap with Europe, regional disparities, agricultural imhalances not to mention insufficient political and human rights were too great even to discuss a date for accession talks. Little has changed since

Mrs Pauline Green, head of the socialist bloc in the European parliament, spelled out the realities with brutal clarity in a recent press interview: "Turkish politicians are trying to convince people that customs union imeans that Turkey] is almost in the European Union. This is nonsense. As far as we are concerned the customa union stands alone. It means that Turkey is a sort of arms-leogth partner of the

Human rights are the largest single problem in Turkey's relations with Europe. Mrs Green warned that "if Turkey wants to be included in the (European) family It must subscribe to the same norms and ralues as the rest of Europe in terms of human rights and democracy".

"Disappearances", torture, murder hy unknown assailants often linked to security forces - are common. Turkey's human righta association counted more than 400 such casea last year. About 10-20

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.. _ key, scene of an 11 year conflict between government forces and guerrillas of the Kurdistan Workers party

Pressure from the European Parliament last summer forced Turkey to modify its constitution and anti-terrorism laws. used to punish non-violent dis-

But prosecutors continue bringing cases against journalists, writers, Kurdish nationalists and opposition politicians. They are tried under an array of laws that consider it a crime to "provoke hatred or animos lty between groups of different race, religion, region or social class" or question the "indivisihie integrity of the republic of Turkey". Even Mr Yaşar Kemal, Turkey'a greatest living writer, was indicted and later acquitted for spreading

'separatist propaganda". Among Turkey's political prisoners are four Kurdish MPs jailed last year for 15 years under the anti-terrorism law for links to the PKK. One of them, Mrs Leyla Zana, was ewarded the European parlia-ment's Sakharov human rights prize. Although changes in the anti-terrorism law allowed the release of more than 70 prisoners, human rights organisations note that It still criminalises dissect, adding that many of those released will be retr-

European MPs will monitor human rights and if necessary

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Mrs Leylu Zana MP is jailed for 15 years for links with the Kurdistan Workers Party (PKK): Turkey's human rights record is also on trial

will cut off financial aid. Although well-intentioned, European concern for human rights is widely resented as meddling by foreigners.

However, the parliament's debate on ratifying the cus-toms union treaty showed that political and strategic issues still outweigh concern over human rights. Mrs Ciller won the day hy playing on Europe's fear of fundameotalism. She said: "Rejection will give the upper hand to the fundamentalists here and in the region."

Europe is probably right to

be worried about the growth of polltical Islam. Eleven days after the European parliament approved customs union, the Islamist Refah party won the most votes in general elections. Mr Alan Makovsky of the Washington Institute for Near East Policy warns that "long term trends suggest Refah's popularity has not yet crested". He says it "has increased its vote percentage in each successive election" since the return to civilian rule in 1983. In 1987, Relah took 7 per cent of the vote. Last

December it took 21 per cent. The rise of political Islam is worrying because of its radical message, hecause it could worsen political instability and hecause it raises questions about the durability of Turkey's pro-western orientation. Turkey is a founder-member of Nato and associate member of the Western European Union, the EU's defence arm. It is a key player in the EU's new Mediterranean initiative. It is a crucial western hulwark in the Middle East, the Caucasus and

Despite the importance of these areas of cooperation, agenda to divide Turkey.

Turkey's relations with the west are clouded by animosity and suspicion. Even President Suleyman Demirel often claims thera is a hidden western Bitter relations with Greece, an EU member and Neto ally,

are a permanent source of iric-

tion. Greek and Turkish fight-

ers frequently hold mock dogto frequent crashes. Turkey warned last year that it would declare war on Greece if it attempted to implement the new international law of the sea by extending its territorial waters in the Aegean sea.

Cyprus is emerging as Turkey's most contentious hilateral foreign policy issue this year. Turkay intervened on the Turkish Cypriot aide during the civil war in 1974 and atill maintains 35,000 troops there. Only Turkey recognises the government of Mr Rauf Denktash and has stated it will not join the EU a mandatory sanctions against northern Cyprus. This is not an immediate problem since

The rise of political Islam casts a shadow over the future Turkey has two years to adopt

EU rules on trade with third countries. However, Turkey could he challenged for re-exporting northern Cypriot products to Europe. Ankara opposes

accession for Cyprus, which will begin membership talks after the intergovernmental conference, until the island is reunified. Hopes last year that lifting Greece's veto on customs union and scheduling membership talks for Cyprus would hring the island'a two communities together have

Meanwhile, membership prospects look as remote as ever. Mr Nahit Tôre, of Ankara University's European Union research centre, says: "If central and eastern European countries are eligible for membership, then Turkey is too." He helieves that if customs union works smoothly, "it will be more and more difficult to say no".

CASE STUDY TOFAS

Top carmaker looks ahead

Turkey's boxy, old-fashioned cars have never inspired much respect among local foreign competitors. As customs union approached, the industry looked easy

prey for predators. But instead of rolling over, the car industry has undergone radical restructuring, Two companies dominate the market. Renault is allied. with OYAK, the army pension fund. Tofes, Fiat's joint venture with the Koc conglomerate, controls over

half the market. Mr Jan Nahum, general manager of Tofas, says "we have been planning for a long time". He designed a five-year, \$800m investment models and raise productivity, quality and design standards.

Mr Nahum believes the loss of the industry's 20 per cent protection from EU imports is "containable". Imports take about 10 per cent of the market now, hut Mr Nahum expects their share to rise to "30-35 per cent in a few years and then stabilise at this level".

Mr Nahum says: "It will be at the cheaper end of the market that we will be in direct competition with mports." Hyundais, Skodas and Ladas are Turkey's best-selling imports. Although Tofas'a 52 per cent market share will fall,

Mr Nabum still hopes to sell more cars as the market grows: today, Turkey has

only 37 vehicles per 1,000 persons, about one-tenth of the EU average.

Tofaș must also begin incorporating new environmental and safety features in its cars to meet more stringent BU standards. Although the three Fiat models Tofas already exports to Europe meet these standards, it has five years to morrade its cheaper locally-developed models

Koc. Totas s parent accepts that it can no longer finance expansion from its own capital. Tofas has almost no debt, but Koç says it will dilute its stake in the company by issuing more equity and gradually raise leverage to 35 per cent as margins decline.

Import competition is not the only worry. Japanese and South Korean companies are planning to set up manufacturing plants in Turkey to supply the domestic and export markets. Toyota already has a \$325m plant outside Istanbul producing 20.000 Corollas a year for the domestic market. Honda, Hyundai, KIA and Mazda are

all considering investments. Mr Nahum's strategy is to strengthen ties with Flat. which holds 37.9 per cent of Tofaș. He says: "Tofaș should be seen as a resource for Fiat, a manufacturing hase for customers anywhere." He is narrowing the range of Turkish-made cars and expanding Fiat imports while

increasing exports of cars and parts to other Flat units.

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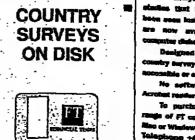
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KOBLEN

Local companies take the heat

The customs union will lead to an inexorable fall in Turkish companies' profit levels

Until quite recently, Turks gally imported Marlboro cigarettes or Levi jeans. It was a criminal offence to bold foreign currency. Ground coffee was only obtainable on the

Although Turkey began dismantling these formidable import barriers in the early 1980s and import competitio has increased rapidly since companies with an entirely new challenge.

By sweeping away controls on nearly all imports from the EU, which supplies about half Turkey's imports, the competitive heat will increase substantially on Turkish companies. Last year, Turkish compa-

probably gone for good as chaaper European imports gradually erode Turkish companies' super profitability.

The car industry was once

expected to suffer seriously from increased European com-petition. Turkish negotiators attempted to win a "deroga tion", or temporary opt-out from customs union. However. car companies have invested beavily and are now among the best prepared sectors (case study on facing page).

The real victims of customs union will probably be businesses suffering poor investment, weak management and high costs. For instance, Turkey's paper makers tend to be smaller, less efficient than the EU's big Scandinavlan producers and tend to use outdated

Although some paper compa nies are investing to upgrade their technology and expand capacity, a report by Global Securities, an Istanbul brokerage, says "investments were cent import protection on not always completed due to

Year	Worktwide	To EU countries only
1990	12.950	6.893
1991	13.593	7.042
1992	14.714	7.600
1993	15.344	7.288
1994	18.107	8.268
1995 (Jen-Jul)	11,711	6.101

TURKISH EXPORTS - TOTAL AND TO EU (Sbn)

goods from European Union countries - so European exporters will benefit by about \$2-3bn a year. But some industries had much higher barriers. Beer had 50 per cent effective import protection, cars 20 per cent and white goods 9 per cent, so the competitive challenge may be more significant,

However, European Commission officials expect greater benefits will appear over the long term. For instance, trademark piracy should decline and investment opportunities increase. Adoption of stricter EU consumer and safety rules will open new markets for more sophisticated machinery or consumer products.

Analysts say many Turkish es had profit margins as high as 40 per cent or over last year. Those days have Source: State Institute of Statesho

high inflation and economic

instability. Today there are

only two machines that can

operate with economies of

The same goes for many other sectors. Mr Yavuz Canevi, an Istanbul banker and head of the YASED foreign "In 1985-6 there was a big investment boom and a there was a large incorporation of technology." However, there had been little large scale investment since then, particularly among small and medium enterprises. He says they "have transferred almost no technology in the last 10

Furthermore, small companies are only remotely aware of how customs union will affect them and most lack the management skills to identify appropriate survival and growth strategies. In most cases. European products rival Turkish products in quality. reliability and sophistication, although higher prices can off-

set these attractions. Larger companies, though have streamlined their internal management structures, lowered break even points and raised investments in capacity to attain economies of scale and productivity. More subtly. companies are trying to change their business culture. Mr fiker Keremoğlu, chief

executive at Turkey's largest brewery Efes, says: "Before, when we had 20 per cent of the market we were really compettrive. But we have dominated the market since 1975, so we have to try changing the men-tality of our people." He says Efes is trying to shake off complacency with internal reforms that "simulate" competition. Efes has also spent heavily on new capacity, modern equipment and on its sales and distribution system. The customs union will bene-

fit local companies that buy raw materials or components from EU countries Imports comprise about one-fifth of local products, by value, Mr Attila Yesilada, Global's research director, says: "The tariff cuts will reduce companies' costs as imported inputs cheaper". But non-European players, particularly Asian exporters of raw materials, components and consumer electronics, would be big losers from customs union: "Companies that import from non-EU countries will find their costs increasing while competition also rises," he says.

However, few companies are expecting an import surge. Mr Maarten van Fontein, of Unilever, points out that "the drop in tariff production will bring a 10 per cent price reduction. which will be obscured by inflation and exchange rates". Marketing executives expect the economy to remain depressed for the next two year, limiting the scope for

Furthermore, the government has increased consumer taxes to offset an estimated

\$2.5bn-\$3bn drop in customs revenues. This, together with rising inflation, has meant that customs union has had little immediate effect on prices since January L

The principal long term effect of customs union will probably be a gradual but inexorable erosion of companies profit margins. Although companies earn a substantial part possibly as much as 70 per cent - of their profits from financial operations, their operating margins are still well in excess of international aver-

increase. So far, few deals have been done - among them is Siemens-Bosch'a \$140m acquisttion last year of 67 per cent of Profile, a white goods maker.

Some Turkish companies are starting to buy European competitors. Kee Holding, the big industrial group, is buying Foron, a small German white goods maker which makes washing machines and ozone free fridges. Türk Boston bank is buying AB Anker Bank, a minor German retail bank.

An investment banker says this is because of "imcertainty



imports will cut profits and force companies to begin finanrowing and selling equity rather than from cashflow as is often the case now. This will reduce the preponderance of family companies, as owners are forced to sell equity to raise capital and surrender control to professional manag-

Thinner margins will also force them to narrow their focus. An industry analyst says: "Maybe local companies will not be able to be market leaders in all their sectors. Maybe they will not be able to cover the entire range." Some may not even survive.

The mortality rate among small and poorly-capitalised companies may be high. Acquisitions by Turkish or foreign

over the situation in Turkey and that there are few companies available. The Turks are too good traders to sell at the bottom of the market. Equally, there have been few distress sales because compa nies have avoided taking on debt at punitive interest rates.

Still, Mr Canevi says, "there will be some dead ones after a few years". Rumours abound about which these will be, Not all will be basket case companies. Arcelik, the highly regarded household appliance maker, for instance, is a small company in a business that is increasingly dominated by large names.

Many equity analysts say its

parent, the Koc group, is seeking an international partner, although Arcelik itself ... Continued on next-page

Free traffic of goods

through the entire customs union treaty with its 64 articles, annexes, notes and additional resolutions. However, a basic grasp of the text is indispensable to those

doing business in Turkey. Customs union was first envisaged by the Ankara Agreement signed in 1964, which established the framework for relations between the then European Economic Community and Turkey. It set 1995 es the deadline for stablishing a customs union. The Agreement was modelled losely on the 1958 Treety of which established the EEC. As the Community developed beyond a free trade area, the customs union has also evolved to include common trade and competition rules.

tree circulation of goods and capital - except for agricultural products. Although customs duties and charges having equivalent effect shall be wholly abolished and as quotes or "voluntary restrictions" will also be probited, Turkish exports mey face EU anti-dumping

A Customs Union Joint Committee will be the main body ensuring that trade operates smoothly by hearing disputes and tacking technical hitches. It will meet at least once a month. Where necessary, disputes can go to binding arbitration. .

Turkey must harmonise its laws with EU legislation wherever they affect issues of "direct relevance" to the cus toms union. Turkey must adopt "substantially similar [trade measures] to those of the Community" in relation to non-members. This includes EU restrictions on imports of cars, textiles and clothing. turkey must also incorporate the EU's preferential trade screements into its trade polcies, it will also have to apply the EU trade embargo on the Turkish-backed administration in northern Cyprus within two years.

pend certain duties, but it

must inform the EU and neontiations will be held in the ambit of the Joint Committee. Turkey is entitled to retain higher duties until January 1, 2001 for certain agreed products.

Although farm products are cluded from the customs union, Turkey is required pro-gressively to adopt the Comenable the future free circulation of agricultural products. Trade mark piracy and theft

of intellectual property is for-hidden. Turkey shall continue to improve the effective

rebates as an export subsidy. Where necessary, either side may unfleterally take "protec-tion measures" to prevent trade distortions, which the Joint Committee will rule upon ex post facto.
Although Turkey will have no say in formulation of trade

texes as indirect protection

mechanisms or to use tax

policy, the EU will consult informelly with Turkieh involved in the work of technical committees that advise the Commission, when drawing up legislation that may



A nation on the march: but in which direction?

otection of intellectual industrial and commercial property rights in order to

secure a level of protection the EC and take measures to ensure these rights are Turkey has adopted the EU's competition rules. Price fixing, market sharing, abuse

of dominant market position and other forms of anti-com petitive behaviour are banned "aa incompatible with the proper functioning, of the Customs Union", Aid to industry which distorts competition is also illegal. Negotiations on mutual

opening of government procurement markets in Turkey and the EU will start "as soon as possible" after customs side is allowed to use internal

Political dialogue is a recent addition to the customs union mecha ges from annual meetings of Turkey's prime minister or president with the Commission's president and the country holding the EU's

ters and senior officials will meet every six months. European and Turkish officials will hold occasional meetings on common foreign and security policy and Turkey. Turkey will also receive a financial assistance package of loans and grants totalling about Ecut.48bn over a five

rotating presidency. Foreign

year period. Customs Union with the EU. bilingual edition of the treaty available from Intermedia, Aytar Cad. 16/11, Levent 80600, Istenbul Fax (212) 264 5209

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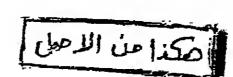
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> Agent The Bank of Tokyo, Ltd.

> > December 1995



PROFILE

Arnold Hornfeld of Siemens

The roots are deep

Arnold Bornfeld was born in move production of some Turkey, speaks perfect lines from high-wage Turkish and probably Germany to Turkey. understands the country better than most foreign by such a large international executives. Siemens, the player represents a formidable challenge to the company ba runs, has also market leader Arcelik, which deep roots in the country. claims two-thirds of the Its history in Turkey goes market. Arçelik, formerly a back to the 19th century, Bosch-Siemens licence, rebuffed its advances and

when it exported copper from Ottoman mines. Stemens set up a manufacturing base in 1952. Like many multinationals in Turkey, Siemens grew big at a time when high import barriers virtually sealed it off from competition. Mr Hornfeld says Stemens became so vertically integrated that "we almost

made our own screws". Naturally, customs union exposes Siemens to the same competitive pressures as Turkish companies. Mr Hornfeld decided to broaden



Arnold Hornfeld: Turkey is a platform for regional exports

his company's local business, which includes electrical engineering, cables, telecom switches and anto components, Last year a 50-50 Siemens-Bosch joint venture paid \$140m for a 67 per cent stake in Profilo, a white goods company. Mr Hornfeld says Profilo "is number two in Turkey and has very good ... machinery. We will invest DM30-40m in 1996 to manufacture bigh-tech complex goods that will improve the Bosch-Siemens' brand name [recognition]." As well as gaining exposure

to Turkey's domestic market.

Profile will allow Siemens to

The acquisition of Profilo

decided to try make it as an

forcing Siemens to look at its

closely. At first, Mr Hornfeld

Customs union is also

traditional activities more

says "there will be oo big

changes in production. Our

art." However, with time

Rocall production of some

lines and import others so

efficiency and concentrate

more quantity in a single

place. This will be a major

part of our philosophy at

In other ways, business in

Turkey for big groups which,

like Siemens, rely on public

ubstantially unchanged at

procurement, will remain

Turkey will expand its role

systems to the Middle and

Far East backed up by an

And the customs union

curement markets in

"as soon as possible" after

customs union commences.

Mr Hornfeld reckons that

transmission, must soon pick

np after several years of

analysts point ont that

established eovernment

competition in the near

suppliers such as Siemens

will not be exposed to much

future. Turkey will still have

plenty of leeway to keeping

the government contracting

it adopts some of the rules

prevalent in EU national

markets.

market closed to ontsiders it

steep decline, Equity

Turkey and the EU will begin

R&D staff of 300.

treaty specifies that

public investment.

particularly power

negotiations on mutual

opening of government

as Siemens' export platform

for sales of cables and traffic

east for several years.

that we can extend our

Siemens will "increase

companies are all state of tha

independent.

Demographic Changes Boost Turkey's Purchasing Power Pockets of wealth amid the poverty

Parts of the country resemble Belgium, others are still at a Third

World level With a population of 62.3m people, Turkey may be a large country, but this does not necessarily mean it is a big mar-

Mr Erdal Karamercan, vice president for consumer products at Eczacibasi, a big pharmaceuticals to nappies group. says "in some [markets] Turkey is nearly as hig as Germany, but in others it is so low that you cannot even compare it to Greece, with a population of 10m."

Average incomes in EU countries are \$15,835 a year. In Greece, the EU's poorest country, incomes are one-third lower but in Turkey they are a mere \$2,200 a year.

Still, many of those in the select top 10-15 per cent of the population enjoy living standards as good as anywhere in the developed world. An Istanbul investment banker says "part of Turkey is like Belgium but the rest is at a third world country level."

The 6-10m reasonably affinent consumers concentrated almost entirely in three main cities - Istanbul, Izmir and Ankara - still make Turkey an important market for everything from perfumes to detergents.

Yet what makes Turkey really exciting is its outstanding growth potential: it is a young, fast-growing country with low consumption rates for almost all consumer products. Mr Ilker Keremoğlu, head of the Efes brewery group, Turkey'a largest, says Turks drink a mere 10 litres per head per year - less than a tenth of consumption in mature markets. hut demand is growing at 10 per cent a year, much more than in western Europe. He says "demographics are the most important thing for us. We have an enormous young

Turkey offers emerging market growth prospects right on Europe'a doorstep, with the added advantage that with cus-

now works to EU consumer protection, safety and intellectual property standards.

However, understanding this

market is not always easy. To start with, Turkey has plenty of emerging market volatility: although the economy has expanded at an annual average rate of 5 per cent since 1980, growth has fluctuated tremendously over the years. In 1995, GDP rose by 7.1 per cent, but this barely makes up for a severe drop the year before. Predicting these booms and busts is all hut impossible - in 1994, many companies saw sales drop by half when Turkey suffered one of its worst

Datergent companies say downmarket brands now account for half their sales. In 1993, they accounted for onequarter of sales. But last year s a boom year. Mr Mehmet All Berkman, president of Arcelik. Turkey'a leading household appliances maker, says "1995 was a very, very good year, one of our best" Sales topped \$1bn and output rose by one-fifth over 1994. But in dollar terms, Arcelik sales are still about 10 per cent less

economic downturns ever.

than in 1993. Furthermore, disposable incomes are hard to judge because so many people work in the unregistered economy. Estimates for the underground economy vary, but most estimates reckon it is as large as the formal economy. Allowing for this, average Turkish incomes are far higher than official statistics would sug-

Unilever, the Anglo-Dutch consumer products group, says the income gap between Europe and Turkey gradually declined by around half between 1980, when economic liberalisation began, and 1998. However, living standards have suffered a drastic decline in the last two years, returning average incomes to 1985 levels and widening the already large

While it may take some time to overcome the reversal in income growth - marketing executives expect the economy to stagnate for the next two toms union EU-based exporters years - Turkey's high growth have duty free access to the rate and rising urban popula-

demand reasonably buoyant. The population is rising by about 2 per cent a year, by far the fastest growth rate in Europe. This makes Turkey a very young country, with a median age of 22 at the last

census in 1990. And since most of Turkey's consumer markets are far from maturity, growth rates are expected to remain high for years to come. Mr Karamercan says "in volume terms, paper products are growing 15 per

40,774

47,736

cent per year against two per

cent in a mature European

market. Cosmetics are growing

by 10 per cent, although from

The country's young age pro-

file means not only that prod-

ucts angled to the youth mar-

ket will do well but that the

Turkish market is more recen-

reports it had virtually no diffi-

market. Furthermore, Turkey tion will keep domestic culty in introducing laser-scanners at its checkout counters, unlike some European markets.

> have a greater appeal to consumers in Turkay than they would elsewhere, partly because of the market's youthfulness and partly because trade liberalisation is relatively recent, giving foreign brands special cachet. Ten years ago imported Nike run-Unfortunately this also

> > 60,246 67,342

73,808 78,322

84,521

means trade mark piracy is

widespread in Turkey. Bootleg

Levi jeans, counterfelt com-

pnter programs, even fake

branded shampoos are wide-

spread. Until now, Turkish

anthorities have paid little

attention to an offence that is

considered almost innocuous.

However, adoption of EU intel-

lectual property laws and pres-

sure from western govern-

ments, notably the US, means

enforcement of patent, copy-

HOW ELECTRICITY CONSUMPTION IS RISING

33,951 30,586

Exclusive brands and labels

probably become stricter in the

Perhaps almost as important as the growing youth market is Turkey's rapid rate of urbanisation. In 1985, most people lived in rural areas or in small towns. Now the figure is closer to one-third.

Turkey is undergoing buge population movements as peasants migrate to the great cities of western Turkey. Istanbul alone receives about 400,000 migrants a year. Although these people are invariably very poor, their incomes and consumption patterns in the city are greater than in the remote villages of Anatolia. This - together with the large underground economy - belps explain why electricity consumption rises ralentlessly every year, despite the economy's dreadful performance.

Urbanisation should also speed social development and broaden the market. The Edncation Ministry says 21 per cent of the population is illiterate, but this should fall as fewer people live in the counby where school attendance is

Urbanisation is also breaking up the extended family. Traditionally, parents, grandparents and children lived under the same roof. Now, Mr Berkman says, "housebolds are dividing. This means more houses, more

right and trademark laws will sales." As incomes rise, consumers will also start demand. ing new, more sophisticated products. For instance, fewer than half of Turkish households own a washing machine and just 13 per cent own a dish washer.

green and the

Even in areas where penetration rates are quita high, replacement sales are potentially very large. Arcelik, which claims nearly two-thirds of the Turkish white goods market, reckons that 98 per cent of the population owns a refrigerator. But, Mr Berkman says, "these are mainly old products, so there is a hig potential replacement market". Unfortunately the word "potential" crops up with depressing frequency. The consumer goods industry will only really flourish when the economy starts growing at a steady 7-10 per cent a year, allowing the mass market of low to middle income groups to expand.

This is an entirely feasible growth rate for Turkey. It would increase GDP by at least one-third and raise average incomes by almost a quarter in five years. However, even this would still leave incomes at about one-third of current Greek levels at the turn of the century when the population will be approaching 70m - in other words. Turkey will still he very much an emerging market well into the future,

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STOCK INDICES

tive to innovation than more mature ones. For instance, Migros, the supermarket chain.

very low bases."

TEXTILES A great opportunity knocks

The customs union will boost textiles exports. But the advantage may be only shortlived

Textile manufacturers will be one of Turkey's main beneficiaries of customs union, now gap between the rich and poor. , that the EU has swept away quotes on the country's most competitive industry. Europe is by far Turkey's most important market: in 1994, it took two-thirds of Turkey's \$6.4bn textile exports, most of it in ready to wear garments.

However, for Turkey to Europe, companies must battle to increase value-added exports, since its edge as a low cost producer will probably be eroded within five to 10 years. For the time being, Turkey's low cost advantage looks safe: according to a an industry report by Global Securities, an Istanbul brokerage, Turkish textile labour costs are about one eighth of EU rates. This may still be two to three times more than Asian countries, but they do not enjoy Turkey's free access to the EU.

Although Turkish companies say EU quotas on 15 categories were never a serious nbstacle - few quotas were fully taken up - the absence of any quantitative limits will now allow companies to increase capacity to meet EU

Mr Adnan Baykal, of Sahinler, a big Istanbul textile and garment manufacturer, says many new business will try exporting to Europe". The industry has spent heavily in the last 12 months to increase cspacity shead of customs

They are also expanding capacity to prepare for a big increase in domestic cotton production. Output is expected to increase rapidly in coming years as the huge \$32bn Great Anatolian Project (GAP) hydroelectric and irrigation project in southeastern Turkey begins increasing the coun-

try's cotton acreage. Mr Baykal predicts that initially "Turkish competition will be in textiles and later move into making-up, because this is a large investment and technology game". He says the company's strategy is to move into higher value-added areas of the industry: "Design is the most important part of this business." Sahinler is also trying to develop brands both in

Turkey and Germany. His group is already involved from the basic spinning industry through textiles to garment-making to export and retail. Sahinler owns a retail company in Germany,

its biggest foreign market that generates one-third of 1995 group revenues of DM1.2bn.

This trend should accelerate as European companies try to move their low-margin activities to low cost countries. A number of international companies have already contracted production to Turkish companies. Altinyildiz, Turkey's big-

> While textiles will do well. local clothing makers will be vulnerable to imports

gest textile group, makes Levis and Benetton garments. Non-EU companies should also increase investment in Turkey to gain free access to the European market.

However, local clothing companies are vulnerable to European import competition in the market's premium segments. EU clothing exporters previously faced a 10-25 per cent import barrier. In 1994 they provided two-thirds of Turkey's \$38.3m ready to wear

Global's report states that "imports of ready to wear products from the EU [are] expected to increase substan tially because 54 per cent of the Turkish population is under 28 and this generation represents strong potential demand for branded prodncts". The Turkish textile industry also suffers from low productivity, poor quality and high energy and financial

Customs union will have far-reaching effects on the industry's cost base. Turkey has adopted EU restrictions on imports of cheap textiles and apparel from third countries, mainly in Asia, that had previ-

Although the local textile industry will be relieved from formidable import competition, it will damage the apparel industry by reducing the supply of low-cost raw materials. However, both industries will suffer from the removal of a cotton export tax the government had imposed to discourage export of highquality cotton.

Some companies will therefore suffer from customs union. Altinyildiz, for instance, was not affected by EU curbs but was a blg importer of cheap Asian raw materials. It will also face rising import competition from EU garment makers as well as local companies.

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Taking the heat

Continued from Page III insists it will maintain its inde-

Companies will have to improve quality substantially, even though they have devoted considerable management resources to improving reliability and research and development. Mr Canevi says "there is a big margin for productivity and management improvement

in this country". However, there will be limits to the surge in competition. Perversely, Turkey's low incomes form a natural barrier to imports - few consumers can afford the higher prices of European producers. Turkish executives add that European

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Cem Duna

withstand Turkey's bad roads and uneven electricity current. Imports will cut established companies' market shares but probably will take a long time to threaten their dominant

cars and electrical appliances may not be robust enough to

positions. Unilever has been in Turkey for 50 years and Mr van Fontein says mounting a challenge will be expensive for a new competitor. You have to he in the market long term. The major success factor is service and distribution and a manufacturing base." However, Philip Morris and

Toyota have both successfully set up networks from scratch. Philip Morris spent about \$20m to set up a nationwide sales network two years ago, a rela-tively modest part of its \$200m investment in Turkey. Furthermore, the rise of shopping malls will reduce distribution costs for new entrants.

Eastern rumblings as the gate opens

Continued from Page I lence in southeastern Turkey. Only Refah, which has extensive grassroots networks in the slums, has shown much interest in the disaffected young

A second source of political instability is the 11 year Kurd-ish insurgency in the aoutheast, where an average of 10 to 20 soldiers, guerrillas and civilians die every day.

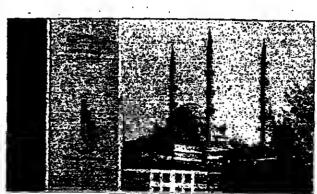
Settling the Kurdish issue would both reduce migration and deprive the country's feared security apparatus of its main raison d'être.

It would also help improve Turkey's much criticised human rights record. The

Kurdish minority undoubtedly auffers persecution. Security courts still hold political trials Police torture and brutality is

widely reported. Yet it is not too far-fetched to imagine that this turbulent country, so sharply divided between rich and poor, could transform itself into a modern European state ready for full EU membership. In the 1980s. under Turgut Ozal, the former prima minister, it developed rapidly both economically and socially. However, as efforts continue to broker a coherent coalition in government, Turkey still waits for confident leadership to take it towards

full participation in Europe.



Customs and Indirect Taxation

European Commission, Ankara Michael Lake, Representative Ugur Murricu Cad. 88 4th Floor GOP Ankara (18700) Tel (312) 437 6840-1 Fax (312) 487 7940

Joint Customs Union Comm this body meets alternately in

Brussels and Ankara but has no permanent staff. Inquirles or complaints over the functioning of the customs union should first go to the Commission in Brussels or

Turkish Government Organisations Treasury Undersecretariat Enver Güney, Head of Foreign Investment Dept. 20 Floo

Emek Mevki, Ankara Tel (312) 212 8914

Foreign Trade Undersecretary: Netat Eren, Eskisehir Yolu, Inona Bulvari, Tel (312) 212 8742

Ozdem Senberk Ambassador 43 Belgrave Square London SW1 Tel (171) 393 0202 Fax (171) 393 0066

Turkish Embassy Brussels Soner Oztek Ambassador Rue Montayer 4 1040 Brussels, Belgium Tel (02) 513 4095

Turkish Embassy Washington Nushet Kandemir Ambessedor 1714 Massachusests Avenue Washington DC 20036 Tel (202) 659 8200 Fax (202) 659 074

Fax (02) 514 0748

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n emerging markets, the essential first step in plotting your route is to ask the right questions. And to find local partners known for their integrity and expertise.

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MONDAY

Hashimoto speech to Diet

In his first policy speech to parliament since becoming Japan's new prime minister, Ryutaro Hashimoto is expected to attempt to justify the government's unpopular plan to spend at least Y685bn (£4bn) of public money on liquidating seven bankrupt housing loan companies. The new session of the Diet will also start deliberation on the budget for the 1996

Roundtable on the Euro



The European Commission opens a conference (to Jan 24) in Brussels involving politicians, businessmen, financiers and the media in roundtable discussions aimed at finding ways to 'sell' the single currency to the public.

Several bundred people will attend the event at the European Parliament Separately, EU finance ministers hold their first meeting under the Italian presidency, at which there will be debates on the economic slowdown in Europe and on Italy's work programme for the next six months related to monetary union.

EU farm ministers meet

EU agriculture ministers meet in Brussels where they will bear a report from the European Commission on the operation of the internal banana market. Ministers will also begin tying up loose ends from the Spanish presidency - notably reform of the wine sector.

Greek cabinet sworn in

Greece's new cabinet is sworn in under Costas Simitis, the new prime minister. To preserve the unity of the governing Panhellenic Socialist Movement, Mr Simitis is expected to let his defeated rivals in last week's parliamentary vote -Akis Tsochatzopoulos and Gerasimos Arsenis – keep their jobs as public summistration and defence ministers. However, the half-dozen members in the kitchen cabinet of Andreas Papandreou, Mr Simitis' predecessor who resigned because of ill-health, will be excluded.

Intergalactic dust



About 100 astronomers gather in Johanneshurg to consider the holes in the universe. which are believed to conceal the secrets of creation. According to

Professor David Block of the University of Witwatersrand, who has organised the conference, the origins of life are hiddeo in black rifts of Interstellar space that divide the Milky Way and separate the stars. These empty patches are in fact clouds of cosmic dust, tiny grains with typical diameters less than one thousandth of a millimetre, which Prof Block says contain prebiotic molecules "needed as the primeval building blocks for life on earth"



The future of Poland's prime minister Jozef Oleksy, accused of being a Russian spy, hange in the balance

Former spy faces extradition

Paul Grecian, the former MI5 spy wanted by US prosecutors for his role in supplying "supergun" parts to Iraqi leader Saddam Hussein, faces an extradition bearing in South Africa. The former director of the collapsed company Ordtech was detained in Johannesburg after arriving on boliday. He is wanted on charges of bank fraud, perjury and the illegal sale of artillery fuse components to Iraq. In 1992, Mr Grecian and his fellow directors were acquitted on appeal by a British court after disclosing MI5's involvement. In the US, Mr Grecian faces a possible 25-year prison sentence.

Beirut exchange reopens

Trading on the Beirut stock exchange resumes after 13 years. The exchange. which closed in 1983 during Lebanon's civil war, will trade initially in only a handful of stocks.

FT Survey

Turkey: The Customs Union with Europe.

23

Holidays Barbados, Pakistan, Spain, St Vincent.

TUESDAY

Clinton addresses Congress In his annual state of the union address to the US Congress, President Bill Clinton can be expected. In effect, to launch his re-election campaign by ontlining his philosophical approach to the social and foreign policy challenges facing the country and placing his budgetary battles with the Republicans in that broader context. He will emphasise his commitment to preserving social safety

nets such as Medicare and Medicaid plus the need to continue to invest in the environment and education - all Republican targets.

Whitbread Book of the Year



Having won Britain's Whithresd award for fiction beating Pat Barker among others -Salman Rushdie hattles it out for the prestigious Whithread Book

of the Year award (£21,000) with former home secretary Roy Jenkins (biographer of Gladstone), poet Bernard O'Donoghue, children's writer Michael Morpurgo and first-time novelist Kate Atkinson.

On Thursday, however, Mr Rushdie's The Moor's Last Sigh, tronnced by Ms Barker's The Ghost Road In the Booker Prize for fiction, will be no threat in Britain's newest, and most lucrative, literary award - the £30,000 Orange Prize for Fiction, sponsored by the mobile telecommunications group. The prize is for women only.

Forte contest reaches climax

The bitterly fought £3.9bn contest for Forte, the UK's largest hotels company, reaches its climax on the closing date for Forte shareholders to accept Granada's hostile offer. The outcome is expected to be close but the odds are in favour of the higher offer being accepted.

trish budget announced

A radical programme to tackie Ireland's problem of long-term unemployment – the

tougher times in the 1970s. Now it is back to full strength and the world's most valuable drugs company in stock market terms.

Valium and Librium before falling on

24 WEDNESDAY

Syria-Israel talks resume

Senior military officers will be present for the first time in eight months at peace talks between Syria and Israel, which resume near Washington. The officers will discuss security arrangements in the event of an Israeli withdrawal from the occupied Golan Heights. This round is expected to decide whether both sides are capable of reaching a peace agreement before Israeli general elections in October.

lrish peace process

The report on disarmament in Northern Ireland by George Mitchell, the former US senator, is released simultaneously in Belfast, London and Dublin. Mr Mitchell, who heads a panel set up to resolve the difficulty of the IRA's refusal to start disarming ahead of all-party talks, was appointed by the London and Dublin governments. The report was delayed for a week to allow for more consultations.

highest in the European Union - is

Kohl hosts unions talks

expected to be announced by its govern-

ment, which is presenting its 1996 budget.

Chancellor Helmut Kohl hosts the seventh

levels in Germany which in December rose

round of top-level talks between leading

politicians, employers and trade unions

to 3.79m or just under 10 per cent of the

Fashion trial in Milan

Italian fashion gurus Giorgio Armani,

Gianfranco Ferre and Krizia are among a larger group of designers, tax officials,

trial in Milan on corruption charges. The designers are alleged to have bribed tax

audits. It is expected it will be claimed in

Rabin murder trial reopens

The trial of Yigal Amir, who assassinated

the Israeli prime minister Yitzhak Rabin, reopens in Tel Aviv. Amir, a rightwing

fanatic, says the murder was a protest against Rabin's returning of

Israeli-occupied land to the Palestinians

and that he was acting in the name of

God. Although be has defended the killing,

last week Amir said he only intended to

Roche's 100th anniversary

company which adds more than £2bn a

year to its cash reserves, launches a year's

Founded by the scion of an old Basle silk

the 1960s on profits from the sleeping pills

ribbon weaving family, Roche grew rich in

Roche, the Swiss pharmaceuticals

celebrations of its 100th anniversary

paralyse Rabin.

their defence that the money was extorted.

officials in return for favourable tax

smen and accountants going on

workforce.

aimed at counteracting unemployment

Phoenix Open at Scottsdale, Arizona (to Jan 27)

THURSDAY

Russia in Europe vote

The parliamentary assembly of the Conneil of Europe is likely to vote Russia in as the Strasbourg-based organisation's 39th member state, in spite of criticism of President Boris Yeltsin's military operation against hostage-holding Chechen rebels in southern Russia. Most of the 15 European Union governments are understood to be pressing for Russia to be admitted amid fears that a rebuff would lead to it reassessing policies towards the West.

FT Survey

FT500. Guide to the World's Top Companies by Market Capitalisation.

Holidays

Aruba, Nepal. FRIDAY

Farrakhan in South Africa

Louis Farrakhan, head of the United States-based Nation of Islam nationalist movement, visits South Africa to meet religious and political figures. In October last year, Mr Farrakhan, notorious for statements attacking Jews and whites, led several hundred thousand black men in a peaceful rally in

US government threat

Actual

Forecas

The third US government shutdown in two months threatens, with the expiration of the latest temporary funding measure.

Mastering Management

The FT's 20-part

series continues in the UK edition with part 12. Non-UK readers can take out a subscription. Contact: PO Box 384, Satton, Surrey, SM1 4XE, UK, Tel: +44 181 770 9772, Fax: +44 181 643 7330.

FT Survey

Quarterly Review of Personal Finance (including special reports on Tessas and retirement planning) in the UK edition.

Helidays

Australia, Dominican Republic, India,

Uganda.

SATURDAY

Spy crisis in Poland

Amid allegations that Jozef Oleksy, the Polish prime minister, is a Russian spy, a government reshuffle is likely to be demanded at a meeting of the leaders of his SdRP party.

If its senior coalition partner falls to conduct a reshuffle, the Polish Peasant Party may be tempted into opposition. Several other unnamed leaders of the SdRP, the former communist party, are

also alleged to be Russian agents.

The meeting was to have chosen a successor to Aleksander Kwasniewski, who resigned as the SdRP's leader after winning the Polish presidency. However, the election is likely to be postponed because Mr Oleksy was the favourite to replace him.

Quarterly Review of Personal Finance (including special reports on Tessas and retirement planning) in the UK edition.

Holidays Monaco.

SUNDAY

Talks on Okinawa-US bases



26

Okinawa prefectural assembly members leave Japan for the United States to plead for fewer US bases in Okinawa. Anti-US opinion was inflamed last

servicemen, Resolution of this issue is seen as crucial to US security policy in Asia - Okinawa Is where It maintains its biggest military presence.

Super Bowl pits the favoured Dallas Cowboys against the Pittsburgh Steelers.

Compiled by Simon Strong. Fax: (+44) (0)171 873 3194.

Other economic news

Monday: Figures on the UK's gross domestic product are expected to show that the economy grew by about 0.4 per cent in the final quarter of last year, the same as in the previous quarter. Spanish consumer price inflation is forecast to have slowed in November.

Tuesday: Economists expect UK M4 money supply to have accelerated further last month. Canadian consumer price inflation is thought to have fallen last month while retail sales are expected to have risen. Wednesday: US reconomic figures are expected to show stronger growth in industrial

production last month but capacity utilisation is forecast to have remained uochaoged.
Thursday: Dutch gross demestic product is thought to have grown by an annual rate of 2.5 per cent in the third quarter of last year, slightly higher than growth in the sec-

ond quarter. Friday: Japanese consumer prices are thought to have fallen this month. Japanese consumer spending is thought to have risen io the year to November. France's trade balance is forecast to have riseo in November. Canadian Industry prices are thought to have risen last mooth.

Statistics to be released this week

Refeased	Conney .	Statistic	Forecast	Actual
Mon	US	Nov wholesale trade	-	0.4%
Jan 22	France	Dec consumer price Indx final*	0.1%	0.1%
	France	Dec consumer price indx final**	2.1%	2.1%
	UK	4th qtr gross domestic product***	0.4%	0.4%
	UK	4th qtr gross domestic product**	1.8%	2.1%
	Spain	Nov producer price indx*	0.2%	-0.2%
	Spain	Nov producer price indx**	5.4%	5.9%
Tues	US	Nov personal income	0.2%	0.3% est
Jan 23	US	Nov personal consumer expend	0.6%	0.1% est
	US	Johnson Redbook Jan 20	-	-0.9%
	Japan	Dec trade balance (customs cird)	\$11,4bn	\$13.0bm
	UK	Dec M4*	0.5%	1.0%
	UK	Dec M4**	9.5%	9.3%
UK	Dec M4 lending	£4,3bn	£3.4bn	
	UK	Dec bdg sety net new commitments	£2.6bn	23.25n
	Canada	Dec consumer price indx, all items*	0.1%	0.2%
	Canada	Nov retail sales*†	0.2%	-0.7%
Wed	US	Dec industrial production	0.3%	0.2%
Jan 24	US	Dec capacity utilisation	83.1%	83.1%
	US	Nov new home sales	675,000	673,000
	us	Nov home completions	-	1.3m
	UK	Dec trade ex-EC	-£825m	-£496m
	Spain	Nov industrial production**	3.5%	3.4%
	Canada	Nov wholesale trade*†	0.3%	-1.9%
	Aus'lia	4th qtr consumer price Indx**	5.1%	5.1%

	vs .	. Dec existing name sales		4.04m
Jan 25	US.	Initial claims w/e Jan 20	375,000	
	France	· Dec household consumption*†	-1,4%	4.4%
	tuly	. Dec hourty wages	4.1%	3.9%
	N'iends	3rd qtr gross domestic prod final	2.5% .	2.4%
Fri	Јарип .	Jan consumer price indx, Tokyo"	-0.8%	-0.5%
Jan 26	Japan	Dec consumer price indx, ration**	-0.4%	-0.7%
	Japan	Ditto ex-parishables	-	0.1%
	Japan	Nov overall pers consumer expend	0.6%	-1.7%
	Japan .	Nov pers cons'r expend (workers)**		-1.8%
	Japan	Nov tricome (workers)**	FFr6.5bn	2.7%
	France	Nov trede balancet		FFr5.9br
	Canada ·	Dec industrial prod price indx*	0.3%	0.3%
Ouring 1	he week			
	Germany	Dec loon consumer climate	-	87.0
	Germany	Dec loon consumer olimate Jan pretim cost of living, West*	0.3%	87.0 0.2%
			0.3%	
	Сеппапу	Jan prelim cost of living, West		0.2%
	Germany Germany	Jan prelim cost of living, West" Jan prelim cost of living, West"	1.6%	0.2%
	Germany Germany	Jan prelim cost of living, West* Jan prelim cost of living, West* Dec Import prices*	0.3%	0.2% 1.4% 0.1%
	Germany Germany Germany	Jan prefirm cost of fiving, West* Jan prefirm cost of fiving, West* Dec Import prices* Dec Import prices*	0.3%	0.2% 1.4% 0.1% -0.8%
	Germany Germany Germany Hally	Jan prefirn cost of living, West* Jan prefirn cost of living, West* Dec Import prices* Dec Import prices* Dec belance of payments	1.6% 0.3% -0.8%	0.2% 1.4% 0.1% -0.8% -L3.1Tr
	Germany Germany Germany Hally Italy	Jan prefirm cost of fiving, West" Jan prefirm cost of fiving, West" Dec import prices" Dec import prices" Dec belence of payments Dec forex reserves	1.6% 0.3% -0.8% -	0.2% 1.4% 0.1% -0.8% -1.3.1Tr L87.2Tr

- ACROSS

 1 After tea read about ridiculous protence (7)

 5 Others following httle devil to get money advanced (7)

 9 Row about black river (5)

 10 Religious belief French wine is still around (8)

 11 Doctor is a dealer in dogs (9)

 12 Benefit that makes a small number suffer (5)
- number suffer (5) 13 Electronic data interchange can transmit initialled order
- 15 Obstacle to soft drank salesmain 191 18 Highly rated? Sure! (9)
- 19 Animals carrying North 16 Compensated 21 Astray on the ocean (2.3) 23 One in Venetian settlement in
- 25 A decade, if inclusive, invigo-
- 27 Seeking (ngmixing (7))
 28 Site of the Taj Mahal seen in faint (hustration (7))
- with new Yorkshire t91 18 Craft, if employed in trade (7) 20 I left terminus, breaking a 26 Language the French can bone (7)
 read (a)

 Country bearing unsubstantial rise (5) 23 Competing for ingots (5) 24 A slattern turning up in Okla-homa (5)

17) 2 Fruit's taken in in inn 19)

1 Arthur's brand name (9)

Collecting stamps from

und monastic knight (7)

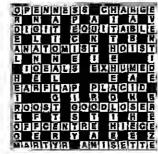
DOWN 1 Salt - salt turns up in name 3 Biting little piece of chocolate 5 Does no work in part and so gets paid less (5) Greek letter not long ago (9) 7 Heath - one Conservative leader in an epoch to 8 Offire worker, household god 14 Conductor of opera rising in

MONDAY PRIZE CROSSWORD No.8,973 Set by CINCINNUS

A prize of a Pellican New Classic 380 frontain pen for the first correct solution opened and five runner-up prizes of £35 Pellican vouchers will be awarded. Solutions by Thursday February I, marked Monday Crossword 8,973 on the envelope, to the Pinancial Times, I Southwark Bridge, London SE1 SHL. Solution on Monday February 5. Please allow 28 days for delivery

Winners 5,961 H.A. Cleave, Crediton, Devon C.S. Brassington, Rugby, War-

wicks K.N. Kneller, Callow Hill, Redditch
J. Maude, London SW
M.J. Pastison, Yeovil, Somerset
M. Thomas, Beechen Cliff,



Solution 8,961

D-NOTICE

New D-Class UNIX servers from Hewlett-Packard.

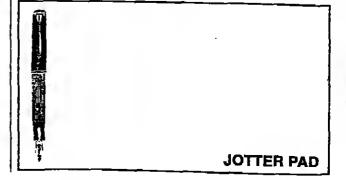
New level of price/performance.

Very robust with hot-plug disks, auto-restart, modem for remots servicing.

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Gall for a written briefing.

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Canada pushed on submaring

year by the alleged rape of an Okinawa schoolgirl by three US

Tempe, Arizona: 30th American football